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ICELAND

Foreign Minister Speaks on Nuclear Policy, USSR Ties

Greater Role in NATO

36260004a Reykjavik MORGUNBLADID in Icelandic
20 Oct 87 pp 62-23

[Article: "Foreign Minister Steingrimur Hermannsson at a Meeting of SVS and Vardberg"]

[Text] "The Transfer of Foreign Trade is the Most Important Organizational Change in Recent Years"

Last Saturday, Foreign Minister Steingrimur Hermannsson gave a speech at a luncheon meeting of SVS [Atlantic Association of Iceland] and Vardberg [Atlantic Youth Organization of Iceland]. The topic at the meeting was Iceland's foreign policy. The foreign minister discussed in particular the changes in organization of the Icelandic Foreign Service and new perspectives in the Soviet Union.

Hermannsson first discussed the changes which had been decided at the formation of the current government, i.e., that foreign trade has now been completely transferred from the Ministry of Commerce over to the Foreign Ministry. He said that this was one of the most important changes that have been implemented in the country's regime in recent years, and that he is very optimistic that this is for the better.

The new Foreign Commerce Department will handle all trade agreements with foreign states; observe the interests of Iceland within EFTA and GATT and to provide service to exporters.

The foreign minister said that during the last election term, a trend to have Icelanders participate more actively in the policy making of NATO developed. People with expert knowledge of military affairs were hired, and Iceland took a more active part in the political activity of the Alliance. Hermannsson said that he feels that Iceland should let its voice be heard more distinctly in the future. He announced that Iceland's ambassador in Brussels, Einar Benediktsson, would soon be attending the meeting of the NATO Nuclear Planning Group. He said that this would be the first time that Iceland had a representative at the meeting, and that it is important for Iceland to be involved in these affairs, as well as other work of the North Atlantic Treaty Organization. He said that he expected the foreign minister to attend these meetings in the future.

The foreign minister spoke next about the new perspectives that have prevailed in the Soviet Union recently. He said that people in the western countries had high hopes about a changed future for the Soviet Union because of internal economic changes. He said, however, that he had sensed a negative attitude from western

governments. It had happened again and again that the Soviets had rehashed old western ideas on disarmament issues and that they in turn had reacted negatively. Of course, people should not "swallow everything lock stock and barrel" as it comes from Gorbachov, but, in general, people do see a ray of hope which the western states must not block out.

Hermannsson said that Iceland can participate in these changes in various ways, and he mentioned the summit as an example. That does not mean that Iceland should offer to host another such summit, unless requested to do so. Also, we can have increased participation in the policy making within NATO; important things are happening there. There is a growing concern within NATO that the Soviets will succeed in splitting the Alliance, for example, that the United States would withdraw its military forces from Europe. The view that the Europeans must be able to be independent is being heard more and more. The foreign minister said that these are vulnerable times, and that it is important that Iceland creates as little unrest within NATO as possible. He said that he himself is one of those who would prefer to have the foreign military force leave the country, but that is now out of the question during these vulnerable times.

Greater Nuclear Weapons Policy Reaffirmed

36260004a Reykjavik MORGUNBLADID in Icelandic
21 Oct 87 p 60

[Article: "Foreign Minister Steingrimur Hermannsson: Iceland's Policy Is To Have No Nuclear Weapons Here"]

[Text] No Difference Whether in Peacetime or Wartime

At a session of the joint Althing on Tuesday, Hjorleifur Guttormsson (Abl.-A1) [People's Alliance representative for Austurland] directed a question to the foreign minister about nuclear weapons in Iceland. Following is the foreign minister's answer in its entirety and discussions that followed.

Hjorleifur Guttormsson (Abl.-A1) directed the following question to the foreign minister: "Is the foreign minister prepared to confirm his comments on the State Broadcasting (television) on June 13 of this year that the resolution of the Althing on disarmament from 21 May 1985 stating that nuclear weapons will not be deployed in Iceland extends to "both peacetime and wartime?"

Foreign Minister Steingrimur Hermannsson answered the question as follows: "I am, of course, prepared to confirm this comment. But it is correct that I support it with some argumentation."

This is a policy we have declared over and over, namely, that nuclear weapons will not be deployed in the country, and many governments [Icelandic] have done that. In fact, we have stated in a response to an inquiry from abroad that we will decide ourselves what type of weapons will be deployed here. Hermann Jonasson did this in

responding to a letter from the Soviet Leader Bulganin. I also want to call attention to the fact that it is stated in the parliamentary resolution that was passed in the Althing on 25 May 1985: "At the same time the Althing reiterates that the policy of Iceland is that nuclear weapons will not be deployed in Iceland, the Althing urges..." There is no reservation. It says that the previous policy of no nuclear weapons in Iceland is being reiterated. I also call attention to the fact that it is clearly stated that the Iceland Defense Force stationed here is here for surveillance and defense and not to launch attacks. This comes clearly forth in our agreements with the North Atlantic Treaty Organization and the United States. It is in fact unnecessary to discuss this any further.

But I do, of course, admit that it has come forth that in times of war, it is obviously quite within the power of the government in power and the current Althing to change this if they so desire.

However, for the sake of information, I think it is appropriate to report that in the agreements made by our neighbors, Denmark and Norway, for example, it is generally stated that this decision applies to peacetime. In the Norwegian Parliamentary Gazette and in the definitions of their security affairs, it is clearly stated that nuclear weapons will not be deployed on Norwegian soil in peacetime. We have deleted this word, and I have not found that anywhere in our [Iceland] statements.

I will therefore not elaborate on this any longer. I confirm what I said before, that is, it seems to me that all actions; all phrasing; everything we have submitted is categorical and does not differentiate between peacetime and wartime.

Historical Statement

Hjorleifur Guttormsson made the following comment about the foreign minister's answer: "I thank the honorable foreign minister for his response and indisputable statement to the effect that nuclear weapons will not be deployed in Iceland, neither in peacetime or wartime. This is the most important statement on behalf of the honorable [foreign] minister which clears all doubts concerning his policy and the potential policy of the government in general concerning this issue. It means, in fact, that the parties who have nuclear weapons at their disposal on behalf of the North Atlantic Treaty Organization, not to mention the adversary, are, in accordance with the desire of the Icelandic government, not authorized to plan on formulating their military strategy with the intention of deploying nuclear weapons in Iceland. What is of importance is, of course, that plans, military strategy, are not based on the fact that the country in question has stated categorically that it will not authorize deployment of nuclear weapons in the country, even if it is in wartime."

I think that this is actually a historic statement we just heard, the fact being, as I stated here a while ago, there was vacillation, to say the least, during the term of the previous government and the ministers, who then handled foreign affairs, concerning these issues."

Policy of the Althing Reiterated

Eyjolfur Konrad Jonsson (S.-Rvk) [Independence Party representative for Reykjavik], chairman of the Foreign Relations Committee, also spoke about the foreign minister's response and Hjorleifur Guttormsson's comment: "I only want to mention, as in fact came forth here, that in this matter under discussion here now, no nuclear weapons in Iceland, that there was no policy change in the resolution from 23 May 1985. The only thing stated there was what everyone has been saying so far, that Iceland is and will be without any nuclear weapons. Of course, no one is ceding any sovereignty in that matter.

Governments do, of course, take a position at any given time based on the situation worldwide. And in this case it is, of course, obvious that in time of a nuclear war, we have absolutely no say whatsoever in the deployment of nuclear arms.

We maintain our sovereignty. There is no policy change; no big news concerning anything that happened here; this is only a reiteration of the policy we have always pursued in this resolution, and that is what the honorable foreign minister did here also and I agree with him, but I totally disagree with the explanations of the Honorable Member of Parliament Hjorleifur Guttormsson."

First Participation in Nuclear Group

36260004a Reykjavik MORGUNBLADID in Icelandic
20 Oct 87 p 7

[Article: "NATO Nuclear Planning Group: First Time an Icelandic Representative Participates"]

[Text] It has been decided that [Ambassador] Einar Benediktsson, Iceland's permanent representative to the NATO Headquarters in Brussels, will attend the meeting of the NATO Nuclear Planning Group which will take place November 4-5 in Monterrey, California, in the United States. This will be the first time that an Icelandic official attends a meeting of the NATO Nuclear Planning Group.

According to information from the Foreign Ministry, Foreign Minister Steingrimur Hermannsson decided to send a representative to attend the meeting of the Group after consultation with his colleagues in the Foreign Ministry and his fellow ministers in the government. [Ambassador] Einar Benediktsson will probably give the foreign minister a thorough report after the meeting. It came forth in the foreign minister's speech at a meeting of the SVS [Atlantic Association of Iceland] and Vardberg [Atlantic Youth Association of Iceland] on Saturday

that it could be expected that representatives of the Icelandic government would attend the meetings of the NATO Nuclear Planning Group in the future.

The NATO Nuclear Planning Group meets when needed, attended by the permanent representatives of the member states, and twice a year with the participation of the defense ministers of the member states. Until now, 14 members states of the North Atlantic Treaty Organization have had representatives on the committee, but Iceland and France have not been participating. France decided to quit participating in military cooperation of the NATO member states in 1966, and in the wake of that, the headquarters of the Alliance were moved from France to Brussels in Belgium.

At the meeting of the committee, nuclear defenses and other matters relating to disarmament and limited armament are discussed. The committee last met in Stavanger in Norway in April.

9583

**Paper Comments on People's Alliance Congress,
New Chairman**

36260006b Reykjavik MORGUNBLADID in Icelandic
10 Nov 87 p 36

[Editorial: "War in the People's Alliance?"]

[Text] The result of the election for chairman at the People's Alliance National Congress was a great victory for Olafur Ragnar Grimsson, the new party chairman, although he and his supporters lost the election to the Executive Board of the party one day later, and it is a matter of opinion what the power ratio is in the newly elected Central Committee. This result is also a major shock for the old power group within the party which took over the political inheritance from Einar Olgeirsson and Brynjolfur Bjarnason, and has now let that slip through their hands. The question they are now facing is what affect will this result have on the internal and external activities of the People's Alliance.

This is the first time that the chairman of the socialist political movement does not come from the ranks approved by the old Communists who founded the Communist Party of Iceland and later the Socialist Party. To be sure, Hannibal Valdemarsson was the chairman of the People's Alliance for 12 years, but at that time it was a political alliance of the Socialist Party and the Socialist Debating Society and not a formal political party as it has been for the last 19 years.

Almost half a century ago, Hannibal Valdemarsson did not succeed in controlling the Communists; he had entered into a cooperation with them about founding the Socialist Party by splitting the Social Democratic Party. He left that cooperation with a wounded heart. Nineteen years ago, Hannibal Valdemarsson finally gave up any cooperation with the Socialists which he had entered

into during the 1956 elections after he split the Social Democratic Party. He left that cooperation rich in experience. Now we may ask whether Olafur Ragnar Grimsson succeeded in doing what Hedinn [Valdimarsson] and Hannibal [Valdemarsson] did not accomplish. The answer is: That will not come to light until several months from now. Only then will it become clear whether Grimsson will in fact get a real grip of the People's Alliance, or whether the old power group will manage to keep him at bay. It is clear, however, that the new chairman has made a greater advance than his two predecessors.

The election of Olafur Ragnar Grimsson as chairman of the People's Alliance means that the conflict will continue there. The difference will, however, be that the conflict will be more violent than ever before. Political successors of Einar [Olgeirsson] and Brynjolfur [Bjarnason] will deploy all conceivable means in order to defeat the new chairman. The reason that they lost the chairman election is, however, that they have lost a lot of steam. They have not succeeded in regenerating as much as they needed, and they did not have a candidate for chairman within their ranks. It is therefore an obvious question to ask whether these powers within the People's Alliance have sufficient strength to tackle Olafur Ragnar Grimsson, and to shake him from the chairman's seat which must be their objective. No confirmations will be made about this. It will simply come to light in the next months.

The opponents of the People's Alliance can expect a more vigorous activity from the party in the next weeks and months. The new chairman will strongly pursue support from the Social Democratic Party, the Women's List and the Progressive Party, which is where he began his political career. He will endeavour to give the People's Alliance more social democratic characteristics and the party can therefore become a difficult rival for Jon Baldvin Hannibalsson's [chairman] Social Democratic Party. Various supporters of Olafur Ragnar Grimsson, especially from within the ranks of the academics, realize that the old slogans about Marxism and nationalization are obsolete and unappealing, primarily among the young people. Such views did, however, have certain support at the congress, and the fingerprints of the Fylking Barattusinnadra Kommunista [Phalanx of Revolutionary Communists], which achieved certain results in this violent combat, will turn out to be an increasing baggage for the new chairman.

On the other hand, experience shows that Olafur Ragnar Grimsson does many things better than obtaining popularity among the public and in that way assuring the people's votes. The results of the People's Alliance in Reykjaneskjordaemi [Reykjanes electoral district] in the last elections, where Grimsson planned the party's election campaign and held the crucial seat, showed that he has to fight an upward battle with the voters.

In time, internal conflict will put its stamp on the People's Alliance. As experience has shown, both among the People's Alliance and others, such conflict has a paralyzing effect on all party work. It can perhaps be said that this National Congress of the People's Alliance is not the final point of the conflict within the party, rather that it is the beginning of the final battle. At this time, no one can predict how this battle will end.

09583

NORWAY

Defense Minister on INF Treaty, Country's Nuclear Policy
36390019a Oslo ARBEIDERBLADET in Norwegian
19 Nov 87 p 7

[Article by Grete Berget: "No to New Nuclear Weapons"]

[Text] "The question has not arisen of replacing with other weapons the weapons that will be removed, and Norway will not support any such replacement should it be proposed." Defense Minister Johan Jorgen Holst spoke very clearly when he answered the question whether land-based weapons which will be removed in an expected INF agreement can be replaced by air- and sea-based nuclear weapons.

It was Inger Lise Gjorv (Labor Party) who raised the question whether it was true that NATO is working on plans to replace the land-based nuclear weapons that will be removed through a possible agreement between the USA and the Soviet Union (the INF agreement). Holst said in his reply that the agreement will contribute to increasing security in Europe and that accordingly there is no need to compensate for the agreement by the deployment of new weapons.

Important

Holst stressed the importance of the expected agreement in seven points:

It will strengthen the political balance in Europe.

It will shatter the notion of a distinctive European strategic balance and strengthen the Atlantic security framework.

It will contribute to arms control's being able to be considered a credible instrument of security policy.

It will eliminate an entire category of weapons and thereby restore confidence in the fact that arms control can lead to genuine restructuring and not just cosmetic solutions.

It will affirm the principle of equal strength ceilings and create a benchmark for the fact that asymmetrical reductions can become necessary in order to achieve this.

It presupposes effective monitoring and adopts the principle of on-site inspection.

It will prohibit the further deployment and modernization of the types of weapons covered by the agreement. A number of Eastern projects will have to be shelved.

More Reductions

In addition, the defense minister attached importance to an agreement concerning extensive reductions of strategic nuclear weapons in order to prevent their being deployed or modernized to replace intermediate-range missiles.

"In addition we want to attach importance to reductions of conventional forces and the remaining land-based nuclear weapons in Europe. This is especially important because the remaining types of weapons can use either conventional or nuclear warheads," Holst said.

"We are aware of the dangers of shifting the arms race to other categories of weapons. In this connection, it is important to avoid a tension-creating competition for the deployment of long-range sea-based cruise missiles. The development and deployment of a new generation of these systems are taking place both in the USA and the Soviet Union," Holst said.

8831

Conservatives Turning From Center Party to Christian Party
36390019b Oslo AFTENPOSTEN in Norwegian
4 Dec 87 p 10

[Article by Geir Salvesen: "Break With Center Party"]

[Text] "There is now a break between the Conservative Party and Center Party in the question of a ruling-party coalition. We consider the Christian People's Party to be our most natural coalition partner, and it is pointless to discuss new coalition alternatives before the Center Party has changed its views. The question has not arisen of a coalition with the Progressive Party."

Conservative Party Chairman Rolf Presthus summed up in this way at a press conference yesterday the situation after the Conservative Party's central committee meeting, at which, among other things, the remarks to Wenche Fronn Sellaeg concerning closer cooperation with the Progressive Party had been discussed. And criticized, he had to admit. But now there should be no disagreements between Sellaag and the central committee, while at the same time some misunderstandings which had been created through the press had been cleared up, according to Presthus.

What About the Conservative Party?

The Conservative Party chairman said straight out that there is now a break between the Conservative Party and Center Party in the government question. This break is not something the Conservative Party wanted, but it was created through the Center Party's actions in connection with the agriculture negotiations in June, when the Center Party refused to topple the government, he claimed. "The Conservative Party's wish for a three-party government still stands, but there is no sense in discussing it before the Center Party has changed its stand and gotten the government question clarified."

Is it just the Center Party that must change then? Must not the Conservative Party also change its stand, Presthus was asked?

"Both the Christian People's Party and the Conservative Party had a clear stand on the government question. A new government can be established only by the Center Party's changing its views," the Conservative Party chairman said.

Christian People's Party the Closest

What about a two-party government with the Conservative Party and Christian People's Party?

"This is a hypothetical question. But since the Christian People's Party said that it is willing to form a government with us this means that they are closest to us," Presthus thought. During the rest of this Storting term there is no parliamentary basis for a new government in which the Conservative Party is included but not the Center Party. Asked whether he had then given up hopes of forming a non-socialist government during this term, Presthus replied that the Conservative Party is prepared for this if the situation demands it.

The Conservative Party has now said almost "No, period!" to a ruling-party coalition with the Progressive Party after the next election. But this does not prevent one's having to talk with the sides, including the Progressive Party, in a minority system—local or central, it was asserted. Both Presthus and Vice-Chairman Kaci Kullmann Five described the Progressive Party as an extreme party that was far away from the Conservative Party in terms of solutions: 50 billion to 60 billion kroner in the budget policy.

"Carl I. Hagen has put a fence around himself and his political alternative. I do not think that this description is unfair," said Kaci Kullmann Five.

In light of the recently concluded dispute between Five and Frogner Sellaag concerning the mission of the party's vice-chairman, Five was asked whether she agreed fully

with Frogner Sellaag's statements concerning the Conservative Party's relations with the Center Party and Progressive Party, which created this dispute after last weekend:

"I would have worded it somewhat differently. I do not disagree with the characterization she gave of the Center Party, but I would have chosen a somewhat different way of saying it," Five said.

8831

PORUGAL

PS' 'Left Wing' Issues Document on Party's Future

35420048 Lisbon *O JORNAL* in Portuguese
8-14 Jan 88 pp 12-13

[Excerpts from PS left-wing document entitled "Manifesto to Socialists: Unite the PS, Win the Country"; first two paragraphs are *O JORNAL* introduction]

[Text] "Rather than vying for leadership positions, we are committed primarily to helping create a new state of mind and avoiding a worsening of the symptoms that may jeopardize the very future of the PS." So reads the introduction to the document "Manifesto to Socialists: Unite the PS, Win the Country." *O JORNAL* has had first-hand access to that document and is printing its most significant features below.

The following, among others, signed the document: Antonio Arnaut, Antonio Campos, Fausto Correia, Antonio Ribeiro Machado, Manuel Alegre, Fausto Martins, Sottomayor Cardia, Carlos Beja, Jose Niza, and Rosado Correia.

Historical Figures

He who has no memory cannot dare the future.... It is true that the party must open up to young people and modernize its ideas, methods, and cadres. But it has an obligation to transmit its memory and its history to the new generations. The Spanish and French Socialists have been concerned to do that. For them, retaining the common memory has constituted a cultural act: an act of ideological and civic training.

The PS can pride itself only on its role in resisting the dictatorship and the colonial war and on the fact that some of the most outstanding figures in that fight were among its members. That is a heritage of courage, sacrifice, and civic dignity that the PS can neither forget nor minimize.

Torga

With the Socialist Parties of every era, and inspired by their history, we will struggle for the party's renewal and recovery. So that the Portuguese people, as Torga says, "will be able to find in the reality of a socialism shaped in their own image their human completeness and their civic dignity."

Stock Exchange

Modern socialism was born along with capitalism to combat the latter's abuses and its logic, which breeds privileges and inequalities. It should not be asked to commit suicide now in the name of modernity.

The crisis in the principal stock exchanges has sounded as a death knell for the worst of all archaisms: ultroliberalism [in the European sense]. Reagan himself is being forced to adopt interventionist and protectionist measures in basic sectors of the economy.

The logic of liberalism has always resulted in speculation, the use of money to make money, and the collapse of production and real wealth.

The big stockholders grow richer, and the little people grow poorer.

No to Fashionable Pseudoculture

The PS will have to become increasingly the party representing the values of the Left, not a party which alternates with the PSD [Social Democratic Party] in managing the same interests and administering the same corporatist structures.

The old ideas are returning in force, and the traditional institutions are regaining influence. Fear and resignation are taking hold. The death of ideology and politics is being declared so as to impose the policy and ideology of unbridled capitalism: the blind logic of special interests, the power of money, cronyism, and patronage.

Socialists cannot resign themselves to the dominant talk and fashionable pseudoculture. They cannot abandon the kind of civic and democratic education that will set their values over against the ideology of success, selfishness, and get-rich-quick that is now in vogue. More than ever, socialism is necessary.

Congress

There is complete justification for the suspicion that underlying the political motives behind the calling of the special PS Congress, an archaic notion of the party still persists. It is a notion that we have all defended and one that has marked and conditioned all of us. But it is one which we must reformulate as a necessary condition for making the Socialist Party a modern party: the agent of social liberation and of our own individual freedom.

"Elections of 19 July"

Despite everything, the PS has managed to withstand the electoral earthquake of 19 July. That is a fact which must not be minimized. But a party that has a legitimate aspiration to lead the Left cannot take refuge in a selfish consideration solely of its own situation.

The overall weakening of the Left has also affected the situation of the PS. And that fact must not be conjured away.

The fact is that the PS has endured, but the Left as a whole has been left in a weaker electoral position.

"Open Letter"

While we do not support the doom-prophesying and reductive view adopted by our "Open Letter" comrades (who ignore the fact that the PS has endured despite everything), neither do we share the optimism of our comrades in the party's political leadership (who place too much value on the PS' relative results and underestimate the political consequences of the Left's overall defeat).

And that is why we do not agree with the prospects for the future as presented by Open Letter—whose logic calls for a return to the policy that led to the central bloc—or with the strategy of the political Right—whose logic involves insistence on a "double logic" and insistence on a bipolarization whose inevitable consequence will be the isolation of the PS and its subordination to the hegemonic role of the PSD.

Dangers

Once again there are dangers to democracy:

First, the danger of the PSD's temptation to seek hegemony.

Second, the danger that the system's basic operating rules will be distorted, primarily by amending the Election Law in a way that is likely to challenge the principle of alternation.

Third, the danger that the PS will lose its character and, consequently, its ability to constitute an opposition and an alternative.

Fourth, the danger that the democratic and socialist Left will become divided and fragmented.

PSD and PCP

The boundary between Socialists and Communists is clearly demarcated. It is time for the PS to demarcate just as clearly the boundary separating it from the PSD.

Not to shore up a political philosophy based on the supposed advantages of a bipolar system but to reestablish the position of the Socialists among the leftist forces as a whole.

For that purpose, it is necessary for the PS to assert its autonomy in relation to the PSD as it did in 1975 in relation to the PCP.

Local Government

A realistic analysis of the overall prospects with regard to the local elections is fundamental. The insistence on a bipolarizing and isolationist strategy will not strengthen the PS. On the contrary, it is likely to open the door to another defeat. And it may have the effect of enabling the PSD and Cavaco Silva to realize their dream of hegemony in local government just as they have already achieved hegemony in the central government.

For that matter, rejection of the political positions chosen is in keeping with the nature of the PS and with its role in Portuguese society.

But that requires clarity and the setting of ideological and political boundaries in relation to the PSD and the Right.

It also requires the ability to attract to the PS the fragmented and dispersed democratic Left, ranging from the MDP [Portuguese Democratic Movement] to certain sectors of the Liberal Left and including the PRD [Democratic Renewal Party], the ecology groups, and the new social and cultural movements.

Soares

Mario Soares' election as president of the republic was cause for satisfaction among Socialists and provided democrats with the certainty that he will be a guarantor of democracy.

The PS cannot ignore this fact of great political significance. But not in order to inject party politics into the office of the president, nor to subordinate its strategy to the position of the president of the republic.

The logic behind the office of president is not a logic of party politics. The president's views may not always coincide with the views and interests of the PS.

But the PS must seek, without losing its autonomy, to maintain a relationship of good understanding with the president of the republic in all essential matters.

Because of that, we do not identify ourselves with those remaining aloof from the president of the republic or those who cling to his coattails for purposes of internal disputes.

Association of Friends?

The PS has a national responsibility. It is not a think tank, a student association, or an association of friends. Rebuilding the unity of the PS requires an understanding of its history, its basic nature, and the sort of party it is. Rebuilding unity is an act of political intelligence that will also have to be carried out with the heart. It will not be achieved by a Manichaeistic approach, through false unanimity, or through artificial and sterile quarrels.

Specific Proposals

We here present to the party chairman, the secretary general, and the National Secretariat a number of proposals whose careful consideration might, where necessary, alter the context in which the upcoming congress is going to be held.

a) The establishment, under the chairmanship of the party chairman, of a committee with equal representation of all shades of opinion for the purpose of:

Formulating rules capable of creating a climate of tolerance and mutual respect and of guaranteeing unity in action on the basis of plurality and diversity in thinking and in ideas.

b) Amendment of the bylaws to produce a genuine democratic reform of the party. In particular, this would include:

1. Direct election of the secretary general and the party chairman by all registered members in universal and secret balloting.

2. The election of delegates to the national congress by electoral colleges at the district or federation level.

3. The election of delegates to federation congresses by electoral colleges at the municipal level.

4. The establishment of municipal political committees whose coordinating secretaries will be ex officio members of their federation committees.

5. Assumption by the Political Committee of its powers, with meetings to be held at least every 2 weeks and with the National Secretariat to be subordinate to that organization of political leadership.

c) The start of real dialogue with various political forces ranging from the MDP and the PRD to sectors of the Liberal Left as well as with ecology movements and new social movements, without prejudice to contacts with all remaining forces in the opposition.

d) Resolute and clear support for Socialist officials in local government and Socialist union leaders, provided that such support is consistent with the party's values,

not only in connection with local elections and social struggles in defense of the rights of workers, but also as a way of enlarging the living and creative presence of the PS in Portuguese society.

e) Diligent efforts to bring back into the PS those who belong to it, meaning a few historical figures who are symbols of the party and of democracy itself.

f) A new attitude toward the problems of young people, with greater autonomy for Socialist Youth.

11798

SPAIN

Parties' Financial Situation: Debt Increasing *35480051a Madrid YA in Spanish 23 Dec 87 p 2*

[Article by Esther Esteban]

[Text] Madrid—The majority of the political parties are in debt up to their necks to financial institutions, and many of them will have to pay out huge sums on 31 December. Some of them, such as the Communist Party of Spain (PCE), have been forced to take out new loans in order to pay off old ones. Although their financial situation has been partially relieved by the Political Party Financing Act, they officially admit to owing a total of over 9 billion pesetas. This figure dates back to the elections of 1979, and has been building ever since. All of the parties—with the exception of the Democratic and Social Center (CDS), which has refused to reveal its financial situation—estimate that by 1992 at the outside they will have moved out of the red and will have at least slight surpluses in their treasuries.

Like it or not, all the political parties are obliged to reach an understanding with credit institutions and to maintain friendly relations with them. As a general rule, they decline to provide the press with detailed figures on the nonfinancial entities that also have them on their lists of delinquent debtors. Nor do they want to take the risk of revealing too much information on the amounts they are paying in interest, the dates the payments have been made, the banks with which they usually deal, etc.

PSOE: In the Black in 1992

In the Spanish Socialist Workers Party (PSOE), the total debt amounts to nearly 6 billion pesetas (5,925,130,304, to be exact), although the 1.6 billion pesetas the party has coming to it for the last autonomy election results, which it has not yet received, should be deducted from that total. Of this debt, 2,336,164,927 pesetas represents long-term loans; 2,701,469,832 pesetas represents medium-term loans; and 887,495,550 pesetas represents short-term loans. If the party's calculations are correct, this debt will be paid off in 1991, "leaving a tiny little balance forward," in its own words, for 1992.

Emilio Alonso, who is in charge of the Socialists' finances, responded to questions from YA by saying that "as for liquidity, the financial situation is oppressive, but the party is nowhere near bankruptcy. We have a plan to put our finances in order, and so far it has been implemented with a vengeance. By 1991, we will have gotten rid of all the red ink." As in the other parties, this debt has been on the books since the 1979 elections, and it stems primarily from the ruinous election campaigns.

AP: Austerity Above All

When the Mancha team came into the Popular Alliance (AP) in early February, the party acknowledged a debt of nearly 3.5 billion pesetas. Now it claims to have reduced that figure to 1.8 billion in the last 10 months. Thus, it must pay off 1.4 billion pesetas by the first months of 1989.

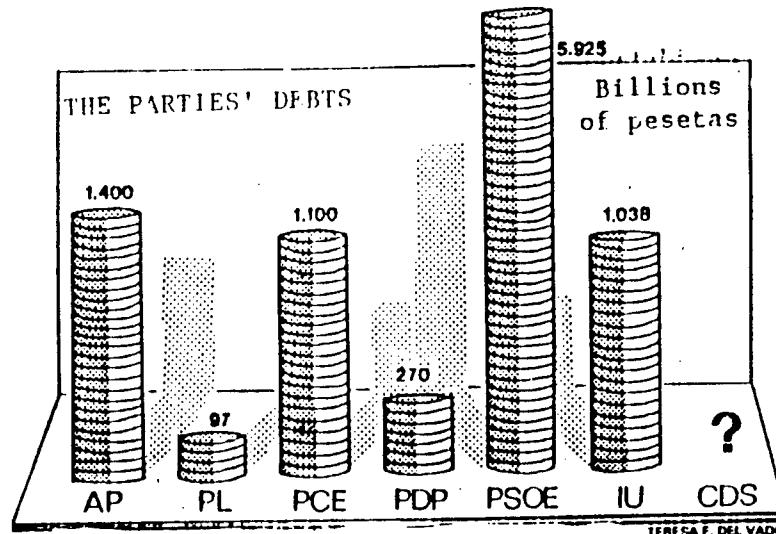
General Secretary Arturo Garcia Tizon is responsible for a very harsh economic austerity program which has involved laying off more than 100 staff members in the party's central headquarters, closing off one floor of the building, and reducing the number of phone lines (some lines were cut off for lack of payment). Garcia Tizon has brought in a manager, Juan Avila, in whom he has utmost confidence.

CDS: Don't Know, No Answer

The party headed by Adolfo Suarez has been the only one to out and out refuse to provide its debt figures; it will not even admit it has any debt. The response from General Secretary Jose Ramon Caso is that "we are a flourishing party, we have not contracted any major debts, and therefore there is no reason for us to give details." When asked if this is in keeping with the full disclosure that the party touts so much, he opted to check the "don't know, no answer" box. This attitude contrasts with the one Suarez maintained in the 1986 campaign, when the banks refused to give him money and he waved the banner of full disclosure.

PCE: Verge of Bankruptcy

The PCE, on the other hand, is in a situation that is just short of desperate, indeed, the worst plight in its entire history. It acknowledges a debt of 1.1 billion pesetas, of which 650 million is owed to banks and 450 million to suppliers. To pay one of the loans, which is due on 31 December, it has had to resort to taking out another stopgap loan of 600 million pesetas. Last September, in view of this situation, it launched a campaign to sell bonds. The idea was that each party member would contribute out of his own pocket (or by selling the bonds to others) a minimum of 10,000 pesetas. Since the PCE has only 60,000 members, this would yield 600 million pesetas. If its calculations come out right, this money will cover the aforementioned stopgap loan.



The parties will be in debt until the year 2000.

The Communists' finances have become so weak that, as YA reported several days ago, the paid staff of the party are looking for jobs elsewhere to make ends meet. Many of them have tiny salaries, and others have gone unpaid for 3 months. PCE officials recognize a total of 22 loans, owed to the majority of banks. Their main debts date back to the 1982 election campaign.

The United Left (IU), on the other hand, has chalked up debts of 1.038 billion pesetas since it was formed. This debt will be paid proportionately by the parties that make up the coalition: PCE, PCPE, PASOC, and IR. The Progressive Federation of Tamames, which recently left the IU, has been presented with a bill for 58 million pesetas to cover that debt. Thanks to the party financing law, however, the coalition has no problem.

As for the People's Democratic Party (PDP) of Javier Ruperez, it owes a total of 270 million pesetas, of which 240 million is owed to banks and 30 million to suppliers.

PDP: Good Management

Jose Ramon Pin, head of the party's finances, committed to YA that in 1988 it plans to pay 170 million pesetas to its creditors, and 70 million more in 1989. Then it will be free and clear. The entire debt was contracted during the last campaign, in which the party did badly. So far monthly payments of 10 to 15 million pesetas have been made, "which allows us to continue functioning without too many problems."

The Christian Democrats have monthly expenses amounting to 7 million pesetas at their central headquarters, including payroll, rent, phones, publications, etc. Another 8 million pesetas is sent to the provinces. The party's budget will be 490 million pesetas this coming year.

PL: Acceptable Situation

Segurado himself confirmed that the Liberal Party owes 97 million pesetas, of which 68 million will be paid off in 1988 and 29 million in 1989. All of the debt is owed to banks, and in a real departure from the norm, this party has a surplus of 18 million pesetas. These figures are only for the central headquarters; the provincial and autonomous offices are on their own.

08926

Poll Shows Steady Popularity Decrease for PSOE

35480052a Madrid DIARIO 16 in Spanish
20 Dec 87 pp 10, 11

[Text] The Spanish Socialist Workers Party [PSOE] is continuing to lose popular support. During the last year and a half, since the June 1986 general elections, it has dropped 5 points, having declined for the first time from its electoral quota of 40 percent. At the same time, the Centrist leader, Adolfo Suarez, is still seriously threatening the top-ranking status currently held by Prime Minister Felipe Gonzalez in the popularity rating.

Madrid—The Spanish Socialist Workers Party is continuing its slow but steady decline in the electoral expectations of Spaniards, according to the monthly poll taken by Emopublica & Associates and commissioned by DIARIO 16.

If general elections were held in Spain today, PSOE would receive 39 percent of the vote, based on the weighted voting intentions devised by Emopublica, according to data procured in the poll, which was taken by telephone, from a sample of 1,200 interviews.

Hence, PSOE has dropped 2 points during the past 2 months (since Emopublica started taking these periodic polls for DIARIO 16), and over 5 points since the June 1986 elections.

If this trend were to continue, PSOE might find itself in the next elections (due to take place in 1990) with a voting intention similar to the results that it obtained in the second elections, those of 1979 (30.49 percent). This is the reasoning that Prime Minister Felipe Gonzalez will follow to study the progress of the electoral consultation.

The ruling party's electoral clout is very far removed from its highest level, attained in October 1982: 48.4 percent. At present, PSOE may have lost its absolute majority, something that cannot be claimed with certainty because the distribution of seats depends on the share of votes among provinces.

The Opposition

Meanwhile, the opposition is maintaining its electoral quota with slight fluctuations. Popular Alliance, which stands a point under the June 1986 election results, and the Social Democratic Center (CDS), which maintains its 5-point increment, equal the voting intention obtained by PSOE; confirming the trend which began in November wherein, combined, they managed to total a point more than the government party.

But it is now beyond all doubt that the right-of-center opposition could oust the Socialist Party from power if it were organized to do so. AP and CDS, combined with the Pujolist coalition, Convergence and Unity(CiU), now have a voting intention of 45 percent; slightly higher than the electoral percentage that enabled PSOE to revalidate its absolute majority in June 1986.

Sympathy and Rejection

Adolfo Suarez' party, CDS, continues its rise. In this poll, it has now procured 12.1 percent of the direct voting intention (see Table 2); which is a result exceeding that in the last general elections (9.1 percent). In this respect, it stands only seven tenths of a point from AP, although the weighted vote (that is, the real vote that the authors of the poll attribute to it) is still 11 points from that of AP.

The weighted voting intention is determined by Emopublica based on a corrective formula wherein the recollection of votes expressed by those interviewed and the last election results, among other data, play a part.

CDS finds greater favor than PSOE among voters of the center, right-of-center, and right, but it is defeated among the voters admitting that they are left-of-center. AP has a poor standing among voters of the center (below CDS and PSOE), but it clearly dominates the right-of-center and the right.

A significant point is the fact that the unemployed still come out in favor of PSOE: 38.8 percent of them give it their vote; while only 12.2 percent give it to CDS; 6.1 percent, to AP; and 5.1 percent, to CiU.

In the sympathy index, PSOE still holds first place, followed by CDS (see Table 3). The latter is the one preferred in second place by the AP and PSOE voters. The CDS voters divide their preferences almost equally among their right and left.

On this point, it is noteworthy how the voters with the most schooling are inclined toward AP and CDS. Those with intermediate schooling prefer the right-of-center, by 51.5 percent; and those who have had advanced schooling do so, by 57.4 percent.

AP is still the party most rejected, although it is followed very closely by IU [United Left] (see Table 4). CDS, on the other hand, is the party with the least antipathy among the voters of the other persuasions, with percentages exceeding 10 percent in only one instance.

The highest rate of rejection is that received by IU from AP voters: 78 percent. The lowest is that of CDS, coming from AP voters.

Popularity

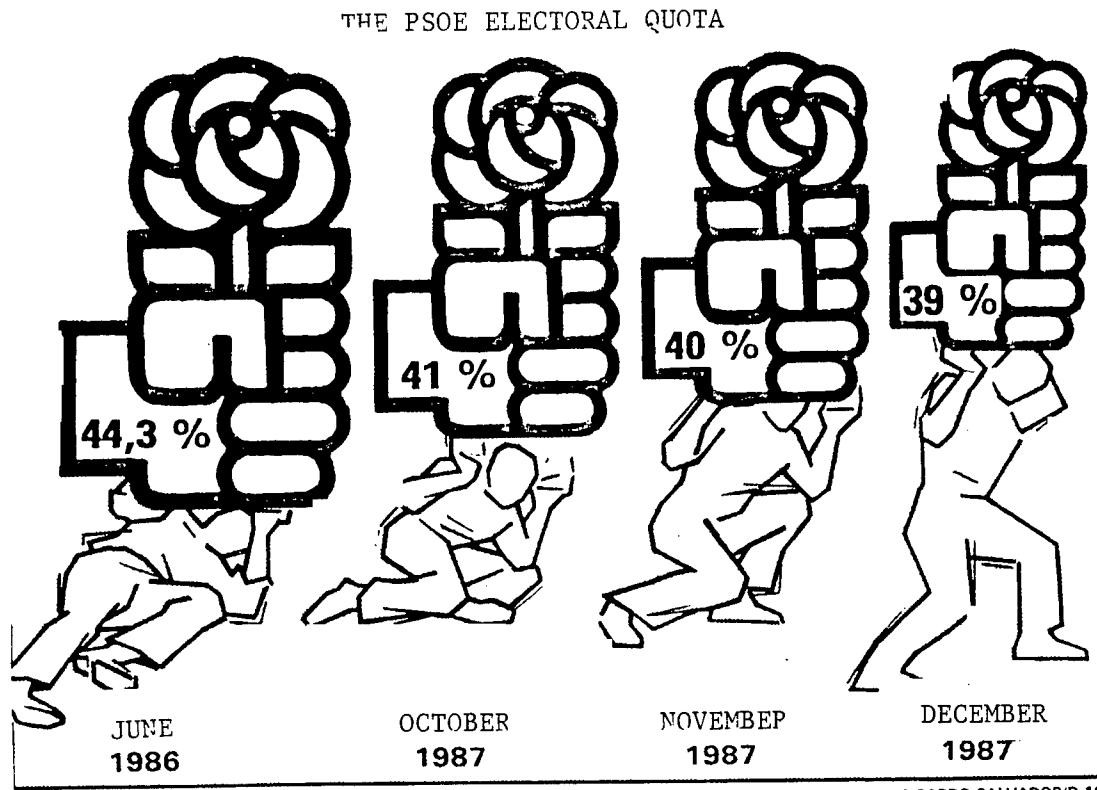
As for the popularity rating, for the first time Adolfo Suarez actually equals Felipe Gonzalez, with a rating of 5.98 (those interviewed were asked to give each leader between 1 and 10 points). The assessment of Suarez' image has been slowly rising, like that of his party; while that of Gonzalez has undergone ups and downs.

Manuel Fraga's popularity is also increasing, despite his dismissal as president of AP. Fraga still ranks ahead of his successor, Antonio Hernandez Mancha; although the latter is improving his position in the preferences of those queried.

The deputy prime minister, Alfonso Guerra, on the other hand, continues to lose popularity, although he retains fourth place in the rating, ending with the secretary of the Communist Party of Spain [PCE], Gerardo Iglesias, who maintains his stable popularity rank in last place.

Technical Record

- National scope (except for the Canaries)
- Universe: individuals aged 18 and over, with a telephone;
- System: telephone poll;
- Size of the sample: 1,223 interviews;
- Error in sampling: + or - 2.9 percent;
- Distribution of the sample: proportional to region and habitat;
- Random selection of sample points;
- Selection of the individual based on sex, age, and occupation quotas;



- Execution of field work and data processing: Emopublica & Associates, Inc;
- Planning and management: DIARIO 16.

For the first time, the Spanish Socialist Workers Party has dropped under 40 percent in voting expectations. Meanwhile, the center and right parties (Popular Alliance, Social Democratic Center, and Convergence and Unity) have attained 45 percent of the vote; which would enable them to govern without any trouble. PSOE has intensified its downward trend, while AP and CDS are stabilized; the latter party also evincing an upward trend. The Spanish electoral picture is very fluctuating, and there is nothing definite or consolidated in it.

[Box p 11]

Who Picks Up the Votes Lost by PSOE?

Miguel Roca met recently with Adolfo Suarez, and discussed with him again the major unresolved question in Spanish politics: the unity of the opposition forces. The Catalonian who is sure that his coalition, Convergence and Unity (CiU), will easily win the autonomous elections next May, keeps stressing the need for agreement to defeat the Socialist Party.

Roca does not propose the formation of a coalition (because he thinks that every electoral contender should prove its strength alone), but rather an agreement among the right-of-center parties to form a government with the combination of their votes. And he begins by not imposing conditions on the politician who must occupy Moncloa. Could the candidate for prime minister be Adolfo Suarez? It could be Adolfo Suarez.

The results of the December poll indicate that the Roca slate would defeat PSOE today. The AP, CDS, and CiU votes already total 45 percent, and put the hypothetical post-electoral coalition 6 points above the current governing party, and in a position to gain a majority in Parliament. (The assignment of seats would have to be made depending on the distribution of votes by provinces.)

The theoretical AP-CDS-CiU coalition has undergone outstanding growth during the past 5 years, with a development close to 50 percent. In the 1982 elections it took 31.8 percent of the vote; in those of 1986, it already attained 40.2 percent; and today, according to the Emopublicapoll, it benefits from 45 percent (a percentage confirmed in the previous October and November polls).

TABLE 1: WEIGHTED VOTING INTENTION

(IN %)

	December	November	October	June 86 election results
PSOE	87	87	87	44.3
AP	39	40	41	26.1
CDS	25	27	25	9.1
IU	14	14	13	4.6
CiU	5	6	5	5

POPULARITY RATING

(Rating of political leaders from 1 to 10)

	Dec 87	Nov 87	Oct 87
Felipe González	5.98	6.03	5.93
Adolfo Suárez	5.98	5.91	5.84
Manuel Fraga	4.78	4.64	4.66
Alfonso Guerra	4.50	4.60	4.61
Antonio Hernández Mancha	4.33	4.17	4.25
Jordi Pujol	4.26	4.13	4.54
José Antonio Aranza	4.23	4.27	4.14
Carlos Garaicoechea	3.84	3.91	3.86
Gerardo Iglesias	3.61	3.62	3.60

In the Spanish electoral picture, a clearcut individual alternative has not yet been consolidated, but a definite party option is indicated. In other words, the image of Felipe Gonzalez has still not changed (the image of Suarez, who equals him in the popularity rating, stands far above that of his group); but there is, indeed, a replacement, obviously, for PSOE.

Suarez' party is growing steadily, but its progress seems to be obstructed by Popular Alliance. The votes lost by PSOE unceasingly (5 points since June 1986) have been reaching CDS (which has grown by the same 5 points since that date). It is not true that the votes leaving PSOE are augmenting abstention. They are going to CDS. But the strength shown by AP has, for the present, made the possibility of surprises remote.

Contrary to all predictions made at the time, Antonio Hernandez Mancha has managed to keep in place the party left behind by Manuel Fraga. The predicted confusion among the right has not occurred, and AP still retains the support of a quarter of the electorate. There is every indication that, when the first phase of tension is over, AP will be in a position to revalidate its electoral quota.

In this situation, the growth of CDS is a result of the decline in PSOE. CDS has its progress assured; but in the evolution of PSOE per se, and in AP's strength, it also finds its limitations. Let's suppose that PSOE lost another 9 points before the 1989-1990 elections. CDS, if the trend remained steady, would grow as much as 23 percent, and then there would be three parties with very

close percentages (30, 25, and 23) dominating the political scene, but without any chance of governing. (A reference note: to attain its relative majorities in the first two legislatures, UCD [Democratic Center Union] needed 35 percent of the vote.)

Based upon this, CDS is picking up the votes lost by PSOE, but not the chances of governing also lost by PSOE. Suarez wants to return to Moncloa, but if the situation does not change considerably, he can do so only with the aid of the Roca ticket; at least after the next elections.

2909

SWEDEN

Poll Asks View of U.S., USSR National Defense
36500050b Stockholm DAGENS NYHETER in Swedish
18 Dec 87 p 9

[Article by Bengt Falkkloo]

[Text] The Swedish people feel that Gorbachev is a fairly good leader and that the Soviet Union is not as closed a society as it was before. The Soviet Union is almost as good as it was before the Russian submarine went aground in the Karlskrona Archipelago in 1981. The United States is not so bad either: Reagan is not as self-willed as he once was.

The Psychological Defense Administration (SPF) surveys public opinion trends every year. During two rounds of interviews last fall, a number of people of different ages and with varying levels of education were polled.

The man in charge of the poll, Goran Stytz, declines to give any direct reason why the attitude toward the Soviet Union has become so favorable.

"But it might be explained by Gorbachev's more open attitude toward other countries, Russian peace initiatives, Russian efforts on disarmament issues, the halting of nuclear tests, and so on."

The popularity of the Soviet Union and the United States is measured in "opinion balances." It turned out in 1973 that the United States stood at -5 in terms of those units, while the Soviet Union stood at +60. Since then, the United States has been moving steadily upward, and this year it stands at +70.

The Soviet Union now stands at -10 after crashing straight down in 1981 (Submarine 137). But in 1985 it was down to -70.

In the fall of 1986, 31 percent felt that the Soviet Union was a threat to Sweden. One year later, 19 percent think so. Last fall, 41 percent also felt that the Soviet Union was an unfriendly country, but now only 35 percent think so.

Unfavorable views of the Soviet Union have dropped from 75 percent to 50 percent in 1 year.

Last fall, 28 percent felt that the United States was a threat to Sweden. This year the figure is 17 percent. Last year, 65 percent also felt that there was no unfriendliness between the two countries. That figure is now up to 78 percent.

Of those polled, those between the ages of 65 and 70 have the most favorable opinion of the Soviet Union.

Unfavorable opinion is more widespread among the highly educated and those living in population centers than among those living in rural areas.

Opinion is most unfavorable among Conservatives (61 percent), while 32 percent of Communists are also unfavorable!

On questions concerning the future, women are more pessimistic than men. More of them believe that accidents or disasters are going to strike the country or their families.

Eighty-five percent do not believe that Sweden will be attacked by another power before the year 2000. But 9 percent believe it will. Eleven percent of women think there will be an attack, compared to 7 percent among the men.

Opinions are surveyed every year in the same way. Some of the questions were reworded this year, but the results are about the same as before.

Eighty-five percent are satisfied with the society we have today.

Twenty-five percent are optimistic about the future.

Fifty-seven percent are not worried about the future.

One-third believe that Sweden can stay out of a major military conflict in Europe.

Sixty-seven percent question the ability of the Armed Forces to act as a deterrent.

Seventy percent rate our chances for defending ourselves in a war as small.

Eighty-six percent support conscript military service.

Seventy-five percent think that we should offer armed resistance.

Ten percent do not think so.

Over 90 percent feel that we should have a military defense.

One-third support an increase in military spending.

11798

FEDERAL REPUBLIC OF GERMANY

Luftwaffe Chief Reviews EFA, Doctrine, Manpower Issues
36200055 Bonn WEHRTECHNIK in German
Dec 87 pp 31-39

[Interview with Luftwaffe Chief of Staff Lt Gen Horst Jungkurth, conducted by WEHRTECHNIK editor-in-chief Wolfgang Flume, date and place not given; first paragraph is WEHRTECHNIK introduction.]

[Text] Lieut Gen Horst Jungkurth has been the new chief of staff of the German Luftwaffe since early October. In his first talk with WT he of course also comments on the topic which at present concerns not only the Luftwaffe: the European fighter aircraft 90. He does not see any alternative to a European community development, which fulfills the Luftwaffe's requirements and at the same time would be cheaper. The chief of staff also comments in detail on his ideas in the personnel and materiel sphere of the Luftwaffe and on the results of the Military Command Council in Waldbroel: There will not be a successor for the ALPHA JET specializing in close air support of the army, and yet the Luftwaffe will always have to remain capable of supporting the alliance's ground forces over the whole width and depth of the front. The Luftwaffe is thinking of procuring additional TORNADO fighter bombers for this purpose.

[Question] You took over an outstanding, but certainly not an easy, post a few weeks ago. Where do you see the focal points of your work in the coming years—are they the focal points virtually imposed by the natural further development of a branch of service or can you also set your own main points?

[Answer] I see myself in continuity with the Luftwaffe's development in the personnel as well as materiel sphere, and I also intend to continue this development under changed framework conditions. In the personnel sphere—and this is one of the focal points—it involves structuring an air force which, in spite of unfavorable demographic developments, guarantees viability and high reaction capability in peacetime, rapid expansion capability in a crisis and—in the event of a confrontation—a high degree of combat effectiveness and staying power in close collaboration with our own ground and naval forces and the alliance partners.

This must occur with a smaller number of active servicemen, a higher share of reservists, with extended compulsory military service starting in 1989, and in a period when, with high duty-time workload for servicemen, the civilian weekly work time is going toward 35 hours and the Bundeswehr has to woo every good man in competition with the business world. I am aware that the greater future importance of reserve servicemen requires changes in the Luftwaffe, but will also have effects on industry and business. This requires preparatory information and talks, which have in the meantime been

initiated by representatives of the Bundeswehr. The Luftwaffe, which greatly interests many young men because of its broad future-oriented spectrum of missions and its cooperative work climate with total esprit de corps, must further raise its attractiveness: basic military service conscripts, long-term and professional servicemen, reservists and civilian colleagues must be convinced of the meaning and value of their duty in the Luftwaffe, must recruit for the Luftwaffe. The tasks facing us in the personnel sphere are difficult. We will overcome them if the political leadership creates the necessary marginal structural and financial conditions and if every member of the Luftwaffe makes intensive efforts. In the materiel sphere, it is my aim to secure a balanced modern outfitting of the Luftwaffe as well as possible in spite of tight financial framework conditions. With foreseeable changes in the nuclear sphere, it is necessary to compensate for the more sharply appearing disparities between the conventionally considerably superior Warsaw Pact and the NATO alliance if we do not want to jeopardize the security policy stability which has been attained. The focal point of the Luftwaffe's materiel development is aimed at improvement in air defense. The development and procurement of a fighter aircraft which is at least equal to the highly modern Soviet combat aircraft is needed for the necessary replenishment of the ground-supported systems. The past has clearly shown that operations of our own ground and naval forces—i.e. for us the indispensable forward defense—can only be conducted successfully if our own air forces succeed in securing the air space and thereby guaranteeing freedom of maneuver for units fighting on the ground and water. But an opponent must also always be aware that—should he decide on forceful measures—his own territory would not represent any sanctuary.

The Luftwaffe fulfills these missions in the continuum of deterrence with, i.a., the versatile, all-weather, very effective TORNADO. I therefore intend to strengthen the TORNADO fleet instead of an overall improvement—that is not cost-effective—of the ALPHA JET system, for which specific tasks will remain. Overall, it will be a matter of achieving an improvement in the total effectiveness of individual components through an effective combination of reconnaissance, weapons and command systems and through closer coordination of the branches of service in the alliance. This does not mean arming, does not mean not taking note of hopeful developments in international politics. Rather, it means visibly ensuring defense capability as a foundation for further progress in the sphere of arms control and disarmament.

[Question] You speak of an intended strengthening of the TORNADO fleet. Is by that in fact meant procuring additional TORNADO fighter bombers, as your predecessor in office intimated before the Defense Committee of the German Bundestag a few weeks ago?

[Answer] Yes, we have a need for additional TORNADO fighter bombers, firstly—as I have already said—as replacement for the ALPHA JET, but secondly we also

have to think of the fact that, with the transition from the F-4F to the fighter 90, we are phasing out the F-4F, which is still assigned to NATO in a primary role as a fighter bomber. As compensation for the ALPHA JET and the F-4F in the fighter bomber role, we need about 100 TORNADO IDS, which, however, are not financeable in their entirety at present; but we want to at least make a start.

[Question] You often worked in the ministry, but also in command positions in the field forces and NATO. In retrospect, what was for you the nicest period and which job brought you the most? Is there perhaps, on the basis of experience gathered up to now, something which you did not like at the time and which you can now change in your new position?

[Answer] The nicest period for a Luftwaffe officer starts, I believe, when he is entrusted with the command of an operational unit. I had the fortune to command an air wing for three years. The Luftwaffe is already closely integrated into the NATO alliance in peacetime, parts are directly headed by NATO commanders. In my 2 1/2 years as commander of the 4th Allied Tactical Air Fleet (4th ATAF), I was responsible for the operational planning and employment of American, Canadian and German air forces. In the daily close cooperation with the colocated Central Army Group (CENTAG), the realization was confirmed that what determines success or failure in defense is not the degree of self-sufficiency of a component on the battlefield, but the extent and quality of interaction among the components. Thus the necessary freedom of maneuver on the ground can only be ensured if one's own air forces keep the air space above it clear of the enemy. The striving for improvements is a never-ending, constant process at all command and execution levels. I think we must devote ourselves still more to the people in our Bundeswehr, in particular the young basic military service conscripts, but also the reserve servicemen.

Disarmament: Deeds Must Follow the Declarations of Intent

[Question] What in your eyes were the outstanding events of the year now coming to an end—of course apart from the change in chiefs of staff?

[Answer] I believe that what concerns us all, what fascinates many, is that which appears attainable at present in the sphere of arms control and disarmament and—in close connection with that—what could develop in Warsaw Pact countries, out of changes starting in the Soviet Union, in the way of future prospects for our peoples. I hope that deeds follow the declarations of intent and that the abolishment or reduction of nuclear systems is initiated, which could lead to an elimination of the considerable disparities existing to the detriment of NATO, particularly in the conventional sphere, and thereby to greater stability. As long as we are not able to adequately assess these developments with certainty, we

must ensure that we remain in the position to initiate or support beneficial steps on the foundation of secured defense capability within the framework of a total concept with regard to security policy.

Luftwaffe Must Remain Capable of Supporting Ground Forces

[Question] The meeting of the Military Command Council in Waldbroel in the summer has led to a new kind of distribution of tasks among the branches of service. The Luftwaffe "loses" the area between the FEBA [forward edge of battle area] and 100 km, but on the other hand obtains the sole responsibility for primary reconnaissance. What consequences does that have for the Luftwaffe? For example, does it have nothing more to look for on the battlefield, is close air support passe and with it also the ALPHA JET? Can it concentrate entirely on the opponent's hinterland? And should not the reconnaissance components also be strengthened substantially?

[Answer] Waldbroel served primarily to review the missions of the branches of service from viewpoints of planning. The focal point was on bringing out overlapping areas in the branches of service, with the aim of higher operational effectiveness and thereby a more efficient use of resources. It was thus a matter of examining rationalization possibilities and at the same time identifying the boundaries between required financial provisions and achievability of the mission for Bundeswehr planning. The delimitations which you mentioned therefore have national planning significance: The Luftwaffe will in the long term not procure any specialized carrier systems for directly supporting the army on the battlefield. The Luftwaffe must of course remain capable, within the integrated combination of the NATO armed forces, to support the alliance's ground forces over the entire width and depth of the front flexibly and in a concentrated manner where the situation requires it on the basis of the responsible NATO commander's judgment. This alliance mission does not preclude its being fulfilled in the future with additional, less specialized weapons systems capable of a broad spectrum of tasks.

As for reconnaissance, the Luftwaffe will—on an overlapping basis with other services—take care of the mission of large-area reconnaissance from high altitudes (primary reconnaissance), which is important, among other things, for an improved timely gaining of indications, but in the future also of significance for verification measures. The measures for carrying out an initial step toward expansion have been introduced. The Luftwaffe has taken an important step toward improvement with the procurement of the ECR-TORNADO—even before Waldbroel, incidentally—for the penetrating reconnaissance and support of in-depth combat. To be sure, a gap remains due to the weakness of the aging RF-4E and the fact that only about 70 percent of the requirement is covered in the case of the ECR.

[Box p. 4/5] Luftwaffe Command System Section in the Air Force Office

Without any doubt, the Luftwaffe today already possesses an effective organization for conducting air war operations within the framework of NATO. There are also adequate command and control facilities in important subareas; for instance with systems such as NADGE or GEADGE in air defense. But the fact is also that the revolutionary development of information and communication technology often overtakes planning and has resulted in, among other things, an occasionally discordant development of computer-supported systems for the operational centers as well as partially optimized solutions. What challenges the Luftwaffe will have to take on in the coming years in spheres such as operational command, training, organization, technical concepts and system thinking can hardly be better elucidated than in the example of NATO's ACCS (Air Command and Control System) program: ACCS is aimed at supporting tactical operational procedures of air warfare through a combination of sensor, telecommunication and DP [data processing] systems, and indeed under the conditions of electronic combat. This sphere of command and reconnaissance resources is frequently termed "C3I[translator's note: superscript 3 in original text] Complex" (Command, Control, Communications and Intelligence Systems) in NATO language usage. This is committed to maintaining, among the known personnel, materiel and financial conditions in the future also, the Luftwaffe's overall performance capability and striving for a balanced relationship between command and reconnaissance resources on the one hand and weapons systems on the other. The Luftwaffe has already here made an important and also promising step in the organizational sphere: Setting up the "Luftwaffe Command System" in the Air Force Office means that the system-overlapping specialized tasks specific to the C3I[v.s.], previously handled in various duty offices, as well as management tasks for the spheres of information acquisition, transmission and processing, are combined and can be fulfilled more efficiently. For the Luftwaffe's DP systems, the new section assumes—for the first time in one branch of service—its task over the whole life of the systems within the context of "life-cycle management." There is confidence that this is the right way and at the end of the 18-month test the experience acquired can also be made useful for other areas of the Bundeswehr.

Improvement of Interoperability and Standardization in Place of Division of Assignments in the Alliance

[Question] You were commander of the 4th ATAF for several years, and thus have experience with several air forces. Would you consider a kind of division of assignments within the NATO air forces possible? Many do place hope on this with respect to possible economization. Is the German-American ROLAND/PATRIOT agreement not a kind of first step in this direction?

[Answer] The division of assignments touches on the question of national sovereignty in the alliance; i.e. to what extent the individual nations can and want to furnish specific missions and assume others with full responsibility for the alliance. A division of assignments has been discussed a number of times in the past and its implementation judged rather skeptically. Nor would it tally with the way the alliance has seen itself up to now. PATRIOT/ROLAND is not an appropriate example in this connection, for the US-PATRIOTS operated by the Luftwaffe remain the property of the USA. The USA continues to make its contribution to integrated air defense with the HAWK and fighter aircraft. On the contrary, I am of the opinion that the existing procedures for improving interoperability and standardization in the alliance should be further expanded. This also seems to me advisable in order to further increase efficiency in the alliance in view of the resources which are becoming scarcer in the case of all nations.

PATRIOT/ROLAND: The Luftwaffe's Biggest Reequipment Project

[Question] In September the German Luftwaffe took over the first ROLAND antiaircraft [AA] missile Rad [original acronym is "FlaRakRad"]. How far is the Luftwaffe with setting up and training the ROLAND and PATRIOT AA missile units? When is the first German PATRIOT system being put into service?

[Answer] The PATRIOT/ROLAND program is an important step toward improving air defense and therefore has high priority. It is the Luftwaffe's biggest reequipment project since it was set up. The reequipment is proceeding according to plan. The first ROLAND unit is already being set up with an appropriately longer preliminary period in training. The PATRIOT training has started in the USA. The first weapons system is being supplied to the Federal Republic of Germany next year. U.S.-owned weapons systems are scheduled for import starting in 1989.

Fighter 90: Now Decision on Development Phase

[Question] The European Staff Requirement for Development was signed by the air force chiefs in mid-September in Spain. Was this a necessary phase decision, or was it once again to document that the air forces were sticking to the EFA draft? Are you satisfied with the state of affairs attained in the program so far?

[Answer] The European Staff Requirement for Development (ESR-D) of a European Fighter Aircraft is a further military agreement on coordinating military requirements. It is not an independent phase document and has no legally binding effect. The ESR-D forms the military foundation for specifying the weapons system and propulsion unit, which are the object of the development contracts. The ESR-D describes the operational requirements for a fighter aircraft which is optimized for air defense employment, an aircraft which the air forces

regard as necessary in order to be able to meet the threat starting in the late 1990's. The signing of the ESR-D confirms anew the common military need of the air forces of Italy, Spain, Great Britain and the Federal Republic of Germany. It does not restrict the room for decisions by the four governments, but forms the foundation of calculation for assessing and selecting a solution. Overall, the status reached in the program is satisfactory. It is therefore considered proper to initiate the decision on going into the development phase. I would like to stress that the operational requirements which we are starting from are not any maximum requirements, but in many points are already more established at the lower end of the range.

No Alternatives to Fighter 90 at Present

[Question] It is almost quite natural that, as a future program of billions, the Fighter 90 is very much in public discussion. Rumors are heard from England that the number of aircraft needed is to be diminished, while in the Federal Republic of Germany, alternatives are being talked about, such as further development of the F-18 or a "fighter version" of the TORNADO. What is to be thought of these proposals, against the very background that many are of the view that the Federal Republic of Germany cannot financially afford an expensive new development.

[Answer] With the signing of the ESR-D, the British side has consciously and renewedly confirmed a need for 250 EFAs. Since the start of planning on Fighter Aircraft 90 and the narrowing down of planning risks as far as into the definition phase, the Luftwaffe has investigated various alternatives; e.g. national integration solution, ready-made purchases of existing series models and adaptation developments of such series models (among others, the F-18) to the national tactical requirements. It has been clearly shown that at present there are no alternatives by which the performance level required in the long-term is fulfilled at equal or lower costs than with the joint development of the European Fighter Aircraft 90. It can be determined that neither the present F-18 nor a further developed version can even roughly meet the Luftwaffe's requirements. This is not because of excessive requirements of the Luftwaffe. The Luftwaffe already needed a new fighter today in view of the new generation of fighter aircraft already supplied in the Warsaw Pact. The F-18 would be 15 years old in design by the late 1990's. This should clearly show that even with a costly further development this aircraft can hardly be a threat in the 1990's and then for a life of at least 25 years.

A fighter version of the TORNADO was procured by Great Britain and is in operation. The fact that Great Britain is a partner in the Fighter 90 program in my opinion clearly shows that the TORNADO does not represent any alternative. The need for a modern threat-countering fighter aircraft starting in the mid-1990's is undisputed. A study recently done by SHAPE also

clearly shows this. The funds for development and procurement are programmed in the valid Bundeswehr plan in the requisite amount under application of existing bids from firms and reasonable assessments. This is not superseding other Luftwaffe projects. It is now a matter of securing in financial planning the Federal Republic of Germany's contribution to an effective air defense of the alliance area; because: Fighter 90 is not a weapons system only of the Luftwaffe. It is a weapons system of the Bundeswehr, and the freedom of maneuver of the ground forces is indeed safeguarded by it.

Goose Bay or Konya

[Question] Talk of setting up a tactical training area in Turkey or expanding Goose Bay has somewhat subsided. Does the Luftwaffe not have a great interest in such an installation in order to maintain training activity, especially also against the background of increasing complaints of noise in thickly populated Germany?

[Answer] On instructions from the EURO-GROUP conference of ministers, the locations in question—Goose Bay in Canada and Konya in Turkey—are to be investigated for a renewed comparative assessment with regard to suitability and costs. This investigation is being carried out exclusively within the NATO framework. A project office is under construction at SHAPE for this purpose. It is being headed by a German officer. There can be no thought of implementing the project—wherever it may be—before the early 1990's. The shift of noise-intensive portions of the aeronautical training has been carried on by the Luftwaffe for many years. Thus the Decimomannu NATO base on Sardinia has been used for the firing training of operational units since the 1960's. Beja in Portugal was later added for low-altitude flight and weapons training. Goose Bay in Canada has been used for the close operational aerial-tactical training since 1980. At the same time, the low-altitude flight possibilities in neighboring foreign countries were always made use of.

With the shift of low-altitude flights to foreign countries, the Luftwaffe is continually pursuing two objectives: to reduce burdening the people of our country with the noise of low-altitude flights; to ensure continuous close operational training. In all, out of its total need for low-altitude flight hours per year, the Luftwaffe has already today moved abroad more than one-fourth of the low-altitude flight training of the operational units; two-thirds of its air-to-ground weapons training, which is a particular noise-intensive portion. Added to this is all of the aerial ground training and weapons system training on the order of about 41,000 hours a year, which are carried out in the United States and Great Britain.

The training requirements are at present being qualitatively fulfilled to a large extent by the achieved distribution of low-altitude flights at home and abroad. There is no additional quantitative need. Above and beyond that, the following should not be disregarded: Our training

measures abroad are already today leading to a barely still tolerable separation of our servicemen from their families; the Luftwaffe's presence at home cannot be arbitrarily reduced if its contribution to deterrence is to remain credible.

Simulators Are Heavily Used

[Question] Still staying on the subject of noise: The complaints are especially aimed at the low-altitude flights. Simulators are in the meantime being used to an increased extent in the armed forces; in the army, for example, they can do without a major portion of live rounds by using them. Isn't thought also being given to low-altitude flight simulators by which low-altitude flight activity can be limited to a minimum?

[Answer] Simulators are primarily suitable for practising aeronautical procedures. One can neither learn flying nor replace flying by them. The particular physical and also mental stresses which affect a crew only in real flight are lacking in simulators. This is particularly true of flights at low altitudes. The use of simulators in low-altitude flight training can thus not be a replacement for flights, but always only a supplement. Understanding this, the Luftwaffe has already been using simulators for training crews. This has helped being able to so far guarantee the high performance level of the crews with a minimum of yearly flight hours.

The Luftwaffe is of course also thinking about the future possibilities of utilizing simulators with improved technology. But the Luftwaffe today already occupies a leading role in the use of modern simulation systems in the Western world. Even the United States, which is far advanced in simulation technology, is planning to employ mission simulators such as the Luftwaffe has already introduced in the TORNADO units, first in supplying future weapons systems (from B-1B and F-18). The Luftwaffe and the NATO allies are unanimously of the view that, even after the possible availability of simulators which can almost reproduce the full operational spectrum of combat aircraft, we cannot do without an adequate number of flying hours, including low-altitude flight exercises in the real world around us.

Aeronautical Suitability Assessment Probably in the USA

[Question] A lasting topic for years already: the aeronautical training. How do you currently see the plans related to this; is there going to be cooperation with Lufthansa in the pilots' training in the United States, or does the FANTRAINER still have a chance?

[Answer] A decision is currently being made on carrying out suitability assessment (SA) for the Flying Service in the Luftwaffe and Navy. The Piaggio P-149D training aircraft in Fuerstenfeldbruck, which are still being used, may remain in service until about 1990. After that, the

remaining availability decreases so sharply that a continuation of the suitability assessment is no longer possible. The Luftwaffe is giving preference to moving this training component to Litchfield in the USA. Decisive factors in this are firstly the weather- and locality-conditioned advantages which ensure the Luftwaffe a safe and well planned training sequence with the resources of the Lufthansa commercial pilots' school. Additional factors, such as economy of personnel, similar conditions for all applicants, heightened motivation, shorter, better planned training periods, improved preparation for follow-up training, unburdening the local air space, and, not least, the just-mentioned reduction of flight noise [disturbance] at home, which we just discussed, favor a move to the USA in the Luftwaffe's view.

Increase in Attractiveness Is To Guarantee New Generation

[Question] What is currently the applicant situation with the Luftwaffe in a quantitative as well as qualitative respect, in particular also with the flying crews? And what is to be done to guarantee a sufficient new generation also in the long term?

[Answer] Up to now the Luftwaffe has been able to show a favorable development with personnel both in extent and qualification. As far as the sphere of the new generation of officers is concerned, and here above all the availability of recruits for the Flying Service (especially jet aircraft pilots and weapons system officers), the Luftwaffe is currently able to find a selection of the best, for the number of applicants sometimes clearly exceeds the annual replenishment requirement. But this does not mean sitting back and taking it easy, since, in the course of demographic developments, the availability for these careers will also recede.

The matter is already more open to question in the sphere of long-term noncommissioned officers and enlisted personnel. The availability of applicants for positions requiring several years of commitment time is overall no longer adequate to meet the Luftwaffe's manpower needs here. So even today we must already sometimes fall back on servicemen with shorter commitment periods and of course conscripts. This problem is made yet more difficult by the lack of mobility of the applicant, since only very few are willing on their own to be employed in areas far from home. Also, the Luftwaffe can successfully meet the challenge of guaranteeing the manpower requirement for the 1990's only if a whole set of measures are put into effect. The key role in this is to raise the attractiveness. The Luftwaffe has taken a series of measures for that purpose: configurating duties and broadening the training that can be used in civilian occupations, while accommodating the structure which also must ensure that the flow of reservists is kept up. But at least just as important are financial incentives such as bonuses and reasonable advancement opportunities.

Materiel Maintenance Is Becoming More Expensive

[Question] Complaints are heard from industry that the Luftwaffe is having more and more repair works done at its air force hangars, thus allocating less to industry, and that with some types of aircraft fewer hours are probably being flown per year in order to reduce materiel maintenance expenses. To what extent are these assumptions correct—is there a new concept of materiel maintenance in the Luftwaffe? Is a heavier involvement of Luftwaffe hangars really the right way, seen in the long term against the background of the shortage in personnel?

[Answer] The way the question is put, the assumptions are not right, for cause and effect are not portrayed—or are portrayed incorrectly—here. We can only allocate to industry those repair works which can be paid with the available budgetary funds. Cost developments in aircraft repair on the one hand and the budgetary situation [on the other] are diverging at present. The need is greater than the available resources. This means that fewer repair contracts can be awarded to industry. We are therefore trying to reduce part of the consequently uncovered repair requirement through extra work at Luftwaffe hangars. This is occurring—and I stress this—within the framework of the operationally requisite and acknowledged capacities of the Luftwaffe; there is no expansion taking place. There is thus neither a new materiel maintenance concept in the Luftwaffe, nor are we misjudging foreseeable developments in the personnel sphere. We are only compelled, for financial reasons, to make the maximum use of our own operationally justified capabilities at present. We are continuing to try to get an increase in appropriations of budgetary funds for materiel maintenance. In addition to that, we are investigating a whole range of measures for limiting expenses in operations, although we know that the efficiency potential here was already extensively used in the past. The price-productivity ratio in industrial repair plays a key role in this question. Here I hope that we can count on the full support of industry in our effort to improve this ratio.

I have so far ordered the reduction in flight hours, which you mentioned, only for Do-28s. Intervention in the operational performance level—thus also a reduction of flight hours with combat aircraft—is not taking place at present, and I will only consider such reductions if all other cost-effective rationalization measures are exhausted.

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Development, Procurement of Major Ground Arms Items Surveyed

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[Article by Wolfgang Flume: "Armament Appropriations 1987: An Autumnal Harvest"]

[Text]—The German Army occupies a central position in the discussion concerning the future of the Bundeswehr—a future that is characterized by lack of personnel and funds. Last August, WEHRTECHNIK reported on how today's harsher conditions make it more difficult to plan for the Army's future. The same issue specifically

presented those new planning aspects that mostly affect the Army. Above all, the Army's future depends on available funds, and decisions to that effect are expected shortly before Christmas after the final defense budget planning session for 1989. However, last fall has already brought some major decisions in the area of armament—such as the Franco-German agreement to develop the PAH-2 (antitank helicopter), the development of PARS-3 (antitank missiles), and the procurement of additional 100 LEOPARD 2 tanks.

Antitank Helicopters

On Nov 13, at the 50th Franco-German summit in Karlsruhe, the two governments signed an agreement to jointly develop the antitank helicopter PAH-2/HAC (as an addendum to an agreement of 25 May 1984). Many of those present at the ceremony, may well have remembered the project's rocky road to ratification. The main breakthrough for the industry came at the end of June in a meeting in the Black Forest (see WEHRTECHNIK 9/87 p 30); but another critical contribution that decided the final Franco-German agreement was the decision by the two countries to streamline their ideas about air mobility. This accomplishment might well be the beginning for the development of other helicopters with common specifications—especially transport helicopters, such as a transport variation of the PAH-2 which would weigh about 7 tons. Such an approach could help ease the high costs of developing this helicopter which will cost Germany DM 2.142 billion. The German share in the procurement of 212 PAH-2's will amount to DM 6.624 billion. The Ministry of Defense readily admitted that an improved version of the U.S. attack helicopter AH-64 APACHE could save the government about DM 2.2 billion (development costs for an improved AH-64 would come to only DM 550 million). However, "for reasons relating to alliance politics, military cooperation, and defense spending," it was decided to stick with the Franco-German project. There is also the question whether the APACHE would really have saved money because up to now, construction of helicopters under a license agreement has always turned out to be more expensive than originally planned.

Since the PAH-2 will not be ready until 1998 at the earliest and since the Army needs antitank helicopters with night vision capacity before then and has also requested 112 additional PAH-1's, Minister of Defense Woerner has authorized plans to improve the PAH-1 in two stages. First an improvement of the helicopter's flight capacity, followed by a digitized HOT-weapons system and night vision equipment for pilot and gunner which will cost DM 1.2 billion. The so-called interim solution that calls for additional PAH-1 helicopters with a price tag of DM 1.2 billion has been shelved for the moment.

Antitank Missiles

Closely related to the PAH-2 is the question concerning the development of a new generation of medium and long-range antitank guided missiles, such as the PARS-3M and PARS-3LR. Germany, France, and Britain

agreed to develop these weapons jointly, with Germany and France taking the lead and Britain to follow at a later time. Germany's financial contribution comes to DM 1.178 billion. This includes money already spent on initial planning, 33 percent of the actual construction costs (with France and Britain to contribute an equal share), and additional development costs. Within the near future, the three pilot nations will conclude a further agreement with the so-called associated nations of Belgium, the Netherlands, Spain, Italy, and Greece. These nations will share somewhat in defraying the costs for the three "pilot nations" by supporting the development of the MR with 32 percent and the LR with about 20 percent—the latter case involves only Belgium, Italy, and Spain.

Germany's main interest in this venture lies with the PARS-3LR which is to arm the PAH-2 (together with the improved HOT-system) and the tank destroyer PANTHER. About 300 portable PARS-3MRs are to replace the system MILAN because the function of MILAN will be taken over by the antitank armored vehicle MARDER with its on-board mounted launchers.

A third agreement signed in Karlsruhe is to arrange for the joint development of second generation infrared detectors (IR-CCD), the kind needed for PAH-2 and PARS-3 night vision equipment. An estimated DM 67 million have been set aside for this project.

A Seventh Lot of LEOPARD 2 Tanks

Not only PAH-2 and PARS-3 cleared parliamentary hurdles in an effort to improve the Army's future antitank capabilities (it needs to be mentioned that PARS-3 is the first missile fully tailored to match Soviet tank armor), the Army's antitank capacity was further bolstered by the procurement of a seventh lot of 100 LEOPARD 2's, priced at DM 561 million (of which DM 75 million are peripheral expenses). In effect, the lot represents the second "installment" of an order placed in the summer of 1986 to procure 250 LEOPARD 2's for the 10th Panzer division stationed in Sigmaringen—a division still equipped with LEOPARD 1A4 tanks; however, financial constraints reduced this order to 150 tanks (called the 6th lot). Up to now, the German Army has ordered a total of 2,050 LEOPARD 2 tanks at a cost of DM 10.79 billion. By March 1987, a total of 1,800 had been delivered. The first tank of the 6th lot is to arrive in January 1988. A total of 108 LEOPARD 2's are expected for 1988 and an equal number for 1989. Each month of 1990 should bring 5 tanks from Krauss-Maffei and 4 from Krupp MaK, that would add to 34 [as published] tanks by April.

Industries involved in building the LEOPARD 2 should be working at regular capacity until about 1990 (suppliers not quite that long)—from then on, the future is uncertain. In view of the qualitative improvement of Soviet tank equipment, many experts recommend continuing the production of LEOPARD 2's for several

more years at a rate of approximately 100 per year—or at least until armored vehicles of the type 90 become operational. Such a decision would either allow for the retirement of the territorial Army's 650 M-48 tanks—a type no longer up to the latest standards—or for additional LEOPARD 1s to take on the role of antitank vehicles. Whatever the decisions, they will depend entirely on monetary considerations.

Foreign orders for the LEOPARD 2 would of course be very welcome, and chances for that happening are not bad at all. Canada, for example, is considering the acquisition of between 250 and 340 heavy tanks mounted with a 120 mm weapon. The LEOPARD 2, the M-1A1 (and possibly also the CHALLENGER) would fit the order. German defense industries and even the defense ministry itself are lobbying hard for this contract, because—even allowing for substantial Canadian participation—it could alleviate the German tank builders' worries of having to work below capacity.

Britain too is interested in the LEOPARD 2 as well as in the M-1A1 because its Army is quite dissatisfied with the CHALLENGER in its present shape. What triggered the search for a replacement for 500 CHIEFTAINS by something better than the CHALLENGER was its atrocious targeting performance at the Canadian Army Trophy contest in Grafenwoehr (WEHRTECHNIK 9/87, p 72). It seems highly improbable though that the British will decide on a German or an American heavy tank (although bids have been solicited) because heavy tanks are a kind of symbol and a foreign order would reflect badly on the British tank building industry. Another more likely solution would be to improve the CHALLENGER'S driving mechanism and its major weakness, the firing control mechanism. German firms could profit here too by supplying LEOPARD 2 components. Talks with British licensees are already underway.

Armored Vehicles

Krupp Mak, Thyssen-Henschel, Daimler-Benz, and Krauss-Maffei, the 4 firms that were commissioned to develop armored vehicles of the type 90, have by now handed the defense ministry first drafts weighing about six tons and containing approximately 50 different wheel and track designs for a heavy antitank vehicle, an infantry combat vehicle, and the light antitank vehicle PANTHER. The PANTHER alone inspired the defense ministry to propose a selection of eight different design features, such as the location of the driver(up or down), wheels or tracks, and operation by one or two men.

The first quarter of 1988 should bring a decision as to which priorities will dominate the design phase. It is already clear that there will be no "new" antitank armored vehicle because the LEOPARD 1 will step in its place (probably with its current 105 mm weapon). Yet, there is a firm commitment to boost MARDER's combat effectiveness by improving its protective armor (version

A3). The next step could bring an improved MARDER A4 with a new turret and gun, probably a 35 mm caliber. Maybe there will also be a chance for a new infantry combat vehicle.

Prospects are also good for a wheeled PANTHER version as suggested by Daimler-Benz, Thyssen Henschel, and Krauss-Maffei (in the case of Krauss-Maffei, it would be based on the 15 ton MAN truck).

The PUMA Gets Tested

Unless something goes wrong after all, Krauss-Maffei can count this year on a government contract for 2 test versions of the light track-type vehicle PUMA. Even though this order falls short of a full-size contract, it does prove that Secretary Prof Dr Timmermann and his Chief of the Armed Forces Staff Lieutenant General von Sandrart have acted on their suggestion of last summer (1986), when they recommended at a demonstration of the PUMA in Munich that it be tested for its usability.

All-Clear for Tank Howitzer 2000

The tank howitzer 2000 is another very promising undertaking that also involves 2 test versions. After Parliament had given its okay, the firms Maffei and Wegmann were each awarded a contract "to develop, construct, and deliver a tank howitzer 2000 prototype (PzH 155-FT)." Both firms represent a consortium—Wegmann works with Krupp MaK; Krauss Maffei with KUKA (responsible for ammunition feed mechanisms), Porsche (participates in chassis production), and Rheinmetall (turrets)—and are as such commissioned to design and construct one prototype each within 24 months. This first phase is financed with DM 189 million, of which both firms receive a nearly equal share. This sum also helps to cover testing costs for 1 year.

Once finished, a national—or maybe even an international—comparison (probably to accommodate British design ideas) will suggest a technically and economically superior solution that will be further developed during phase 2. Final results will be the production of 4 new prototypes and updated versions of the 2 earlier prototypes—all at the cost of a little over DM 200 million. The introduction of the new weapon is planned for 1995. This means that serial production could begin to supply the artillery by 1997, maybe even a little sooner. The Army's demand for howitzers stands at present at 1,254 including replacements for the M-109A3G, the field howitzer 155-1, and the M-110. The acquisition of an additional 83 M-109A3G for next summer has fallen victim to cost containment.

Phase 1 in the development of the tank howitzer is in effect a combined planning and design stage, while Phase 2 represents the actual development stage. Equally unorthodox are certain contract terms. For example, the contract agreement allows for prices with built-in market variations, but there are also provisions for a fixed

option of Phase 2 models, and firms are required to set upper price limits on future serialized production models three months after the delivery of the prototypes.

The tank howitzer 2000 differs radically in its design from the howitzer 70 which was developed in a joint effort by Germany, Great Britain, and Italy. The project cost Germany DM 265 million and was scrapped in Nov 1986, because it lacked promise. Experiences gained from this project have found application in the new design; however, the new howitzer will be equipped with a new automatic loading (a troublespot with the howitzer 70) and driving mechanism. The engine is of the MTU-880 type and is located not in the rear as in the case of the howitzer 70, but in the front (which allows more room for the automatic loading system). The Wegmann design uses a LEOPARD 1 chassis, while Krauss Maffei prefers the LEOPARD 2 chassis. The howitzers weigh around 50 tons and accommodate a crew of five: a commander, a driver, a gunner, and two gun loaders; everybody except the driver occupies the turret. The new automatic loading mechanism cannot replace all gun loaders—at least not until an automatic loading mechanism for propellant charges has been developed as well. The 155 mm weapon's system by Rheinmetall is the same as in the field howitzer 70, except for the 52 caliber long muzzle which increases the firing range to 30 km. Specifications call for a total of 60 shells.

The present plan to develop nationally two instead of only one prototype is supposed to accelerate the program, while phase 2 represents another attempt for renewed cooperation with Great Britain and Italy. It is well known though that Great Britain, despite an urgent need for this type of equipment, is considering using a system developed by British industry or buying the M-109. Such intentions could, however, represent only an interim solution; thus there is still hope for a joint effort some time in the future. In any case, let's hope that this sought-after cooperation does not run counter to the German Parliament's demand for a speedy execution of the project.

Looking back over the past few months, one has to agree that it was an extraordinary feat to have moved within a scant three-quarters of a year from the articulation of a tactical demand to the signing of actual contracts. We wish the management in charge of the project an equally lucky hand in overcoming future hurdles.

WIESEL: Bids for Serial Production

The airborne weapons carrier WIESEL is also approaching a historic decision. So that a contract for serial production can be awarded during the first half of 1988, the firms Krauss-Maffei, Krupp MaK, and Thyssen Henschel are expected to submit their bids for the serial production of approximately 330 carriers shortly before Christmas. Once again, the competition is tough. The first WIESELS developed by Porsche are to be delivered in 1989 for a kind of follow-up testing. This means that

the eagerly awaited carriers won't be ready until 1990 to replace the KRAKA. The CDU/CSU parliamentary commission on defense planning and especially Representative Hauser asked to speed the program up by one year despite all difficulties. On the other hand, preliminary defense budget plans for 1989 have targeted the number of carriers to be slashed by half—probably not so much for financial reasons, but because of the Army's concept of air mobility, that is to say its ideas about the interaction between Army fliers and airborne troops. The WIESEL [or ferret] is by nature an extremely agile and swift animal. What seems to slow it down this time are not technical demands but getting through the jungle of planning.

Wheeled Vehicles

This year is also to bring a decision concerning the acquisition of wheeled light vehicles. Originally, a selection of vehicles for testing was to take place in July, but Secretary Prof Dr Timmermann decided to select according to price, claiming that all vehicles offered had been tested sufficiently and had been found satisfactory. Thus, the competition for this contract involving approximately 17,000 vehicles will mainly take place between Daimler-Benz—sporting an advanced cross-country vehicle that fulfills all requirements for a variety of wheeled light vehicles—and VW in conjunction with IVECO-Magirus (a good complimentary team).

Belt-Tightening

Overall, fall 1987 has meant progress for the Army's armament procurement program. But one must not forget that much of what is planned and deemed necessary to meet military threats will remain unrealizable. The Army's lack of over DM 500 million in yearly investment capital translates into a loss of approximately 100 LEOPARD 2s a year. Let's face it, we will even have to save in such vital areas as reconnaissance and leadership personnel.

13196

FINLAND

Paper Comments on U.S. Naval Strategy, Cruise Missile Threat

36170037 Helsinki HELSINGIN SANOMAT in Finnish
30 Dec 87 p 2

[Editorial: "Threat of Naval Missiles Is in the South"]

[Text] Speeches about the threat of cruise missiles from northern sea areas over Scandinavia and Finland have been unanimously and increasingly more anxious. An increasing antagonism between the superpowers and an escalating competition over the hegemony of the seas have been observed in the Arctic seas from the observer level all the way to the President of the Republic. The

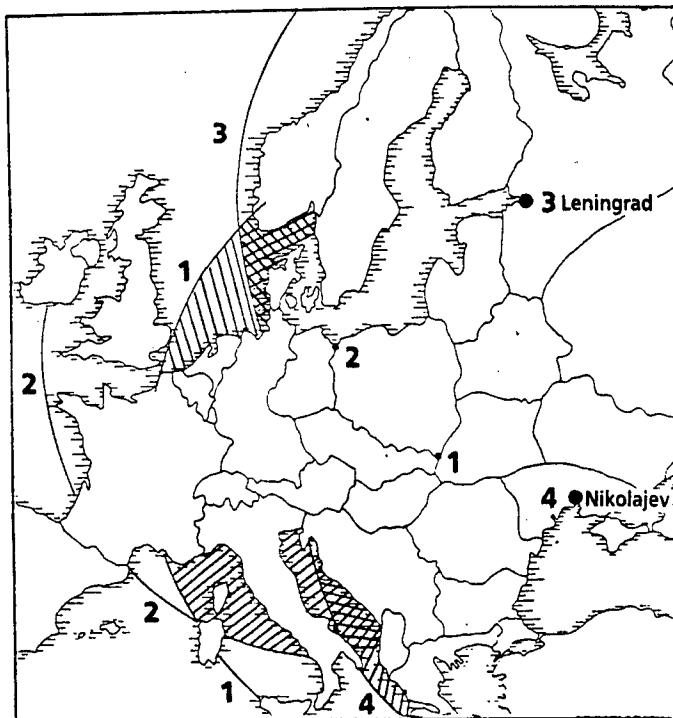
growth of the arms race and tensions in northern seas is seen as damaging the area's security and casting a shadow over Finland's and Sweden's neutrality.

A research report on the new U.S. sea strategy, which will appear in January, by Juha Harjula, a researcher of the Military Science Institute, examines the military situation of the northern seas from a different vantage. Harjula describes the development of U.S. defense doctrines over the last few decades and also places sea strategy in a worldwide context. He compares the military doctrines of the United States and the USSR with each other and concludes with an obviously surprising analysis which graphically demonstrates that there is always reason to examine the strategy of the superpowers on a worldwide scale and not separately by such small sectors as northern sea areas.

Contrary to the optimistic beliefs of public opinion, the military competition of the superpowers occurring in the background of political detente is increasingly aggressive in its nature. This does not mean preparations for war, but a transformation of doctrines from a defensive nature to an offensive nature. The protection of one's own territory from enemy strikes is the goal emphasized by the current doctrines of both superpowers. In this sense the recent agreement on the complete worldwide elimination of medium-range nuclear missiles is an essential partial victory for the Soviet Union since the direct physical threat directed against its soil from Western Europe will thus be eliminated.

The current sea strategy dates back to previous decades in both countries. In America, it was only a few years ago that Navy Secretary John Lehman gave it a definite form along with slogans and a naval fleet of 600 warships as a counterweight to the Soviet Union's numerically superior and ever growing fleet. Lehman's doctrine is global. Only part of the fleet is in the Atlantic and northern waters. America's points of emphasis are the Atlantic, the Pacific, and the Caribbean as well as the Indian Ocean. The Mediterranean is a strong competitor for the north in Europe.

Lehman's doctrine is based on the theory of a war waged with conventional weapons, in which nuclear weapons will be resorted to only in the third and completely improbable phase. The fleet's cruise missiles would be primarily conventional and not nuclear. The deployment of ships on the world's seas depends on the range of the missiles and targets in the enemy's territory. Harjula indicates that the U.S. fleet's most advantageous sea locations in an attack against the USSR and its bases in Europe are the Skagerrak Channel and the eastern portion of the North Sea as well as the Adriatic Sea and the Tyrrhenian Sea between Italy and Corsica in the Mediterranean. The Western fleet's missiles can reach the greatest possible number of Eastern targets from these seas. The East's cruise missiles will likewise travel the same routes in the opposite direction to these seas.



An example of optimum deployment areas for TLAM-C and N Tomahawk cruise missiles launched from sea to land.
The sea areas marked with grid lines are the most economical if the Western fleet is seeking military expediency.
The next best areas are marked with slant lines. The northern sea areas have no rating with respect to directional emphasis.

The strategic importance of northern seas will, of course, remain, but this area is not the emphasis of naval targets. According to Harjula's interpretation, the use of cruise missiles equipped with nuclear warheads and launched from the sea in the Murmansk area is considered to be especially improbable in light of Lehman's doctrine. An American nuclear strike against bases on the Kola Peninsula would immediately result in a Soviet nuclear counterstrike against the American continent. The fleet's nuclear-equipped cruise missiles, on the other hand, will not be used before strategic missiles have already been sent on their way. Therefore, they do not have the military significance of a first-strike weapon. Except for the most southern part of Sweden, flight paths over Scandinavia are highly improbable for cruise missiles because of the paucity of targets.

According to the statistics, the United States has not—contrary to public opinion—essentially increased the number of days for naval exercises and sailings over the long term in northern sea areas even though the Soviet Union has pushed its fleet forward. Tension has not increased in reality and military tension will not increase very much even in the future since the shortage of U.S. equipment and unsuitability for northern areas will prevent the transfer of a realistic military emphasis from Central Europe to the north, which will in the final count be an area of conflict for geographical reasons. Nevertheless, this does not reduce the need for negotiations on

naval cruise missiles in the disarmament talks. The poor feasibility of the cruise missile class in these areas is the best news from a Nordic point of view.

10576

GREECE

Delays in Leonidas Tank Purchase Questioned
35210054a Athens RIZOSPASTIS in Greek
5 Dec 87 p 4

[Text]Significant new questions concerning the 324 armored personnel carriers and tanks of the "Leonidas II" class were raised yesterday during the signing of the related contract between the Ministry of Defense and the Austrian company STAYER.

According to data the ministry made public yesterday, the contract contains many significant variations from the terms officially announced by Deputy Minister of Defense Theodore Stathis on 15 April 1987. Specifically, the number of vehicles to be constructed is increased (from 292 to 324) while the cost of the overall program is increased disproportionately (from 22 to 28.5 billion drachmas). Thus while the increase in the number of tanks is 11 percent the increase in cost is almost 30

percent! Also, the amount of "offset benefits" is reduced from 17.5 to about 11 billion drachmas, while the outflow of foreign exchange goes up from 3.7 to 13.5 billion drachmas.

It is noted that this contract, the signing of which was unexpectedly delayed for over six months (it was initially announced in May) has raised questions from the very outset since its terms show that the STAYER Co has already decided to produce such vehicles of a newer type which it promises to develop in "joint production on equal terms" with Greece. On the other hand, recent press reports—not denied by the ministry—said that the experts of the Army General Staff and its chief, Gen Vellidis, have rejected this specific vehicle. It is, finally, worth noting that these questions, which bring back to surface the need for a clear view of what is taking place in military procurement, were not dealt with by the civilian leadership of the Defense Ministry which cancelled a press conference it had previously announced.

—Alternate Minister of Defense S. Yiota signed the contract with the STAYER Co. In addition to this contract which deals with the offsets, another contract was signed between the ministry and the Greek Weapons Ministry [ELVO] which will undertake the joint production of the "Leonidas II" tank.

—Press Secretary General S. Kostopoulos referred to a statement by Minister of Defense Giannis Kharalambopoulos that "the question is under study," when asked by a reporter whether the government intends to form a parliamentary committee on military procurement.

Replying to another question related to a statement by retired Air Force Major General P. Kondodios that "certain forces are obstructing the development of a Greek weapons industry for the supply of our Armed Forces" Kostopoulos said that "there are not such forces" and defended the government's "sensitivity" on...having board practices on such matters.

7520/12913

PYRKAL Arms Firm Reportedly in Trouble

Firm Seen Near Bankruptcy
35210054b Athens TA NEA in Greek 15 Dec 87 p 11

[Text] Our Armed Forces may be without ammunition for one year because of the inability of the Munitions and Cartridge Company [PYRKAL] to meet its obligations of fulfilling the related procurement program of 2.5 billion drachmas.

According to TA NEA exclusive information, the company's inefficiency is due to its bad management and to the fact that—according to recent charges by the three

representatives of the workers and employees on the PYRKAL Board of Directors—the company has at this moment a tremendous deficit reaching approximately 3 billion drachmas.

Deputy Minister of Defense Stathis Yiota is aware of this delay in the procurement program while, according to our information, Army General Staff Chief Lieutenant General St. Vellidis has sent a letter to the company protesting the delay.

The impending "crash" of PYRKAL—which TA NEA had warned early enough and in spite of contrary assurances by Alternate Minister of Industry K. Papanagiotou—was confirmed by the company's Board Chairman Khr. Papageorgiou during the 10 December 1987 Board of Directors meeting.

Specifically, according to verified information in his report to the Board of Directors meeting, Papageorgiou spoke of:

—The company's bad financial condition and the need to make critical decisions for its future.

—The need for the Organization for the Rehabilitation of Enterprises [OAE], the Ministry of National Defense, the Ministry of Industry and the National Bank to face up to their responsibilities.

—The 3 billion drachma deficit faced today by the company.

—The possibility to close down the company unless immediate and radical solutions are implemented.

During the meeting, the PYRKAL chairman attempted to shift the responsibility for the company's plight to the government and related ministries. In fact he emphasized that the only way to save PYRKAL is to implement his proposal to merge PYRKAL with EVO, reduce the company's size and relocate it.

However, according to a circular letter distributed to the company's workers and employees at the Ymitos plant by their three representatives on the Board of Directors, the only person responsible for the bad management and the poor administration of the company is Papageorgiou himself for the following reasons:

—He sold company products to Brazil below production cost. Specifically, as charged in the Board of Directors meeting by the workers and employees, he sold bullets costing 50 million drachmas for only 39 million. At the same time, according to the same charges, he sold ammunition to Indonesia costing 13 million drachmas for 37 million but then he paid 14 million drachmas as commission to the representatives of Indonesia.

—According to an exclusive report which appeared in TA NEA, he obtained a loan from the Hellenic Industrial Development Bank [ETVA] under completely unfavorable terms for the company, misinforming the Board of Directors and doctoring the minutes of the relevant meeting.

In their circular letter the three representatives of the working people—N. Zakharakis, D. Iliadis and Sot. Khoundras—state that they did not support this bankrupt policy and add:

"Our view on the situation is that the only people who are not responsible for the company's bad shape are its workers and employees. Partly responsible are the related ministries which did not deal seriously with our problems and ignored our views."

The Agreement

In the meantime, according to a statement issued yesterday by the Ministry of Defense, if PYRKAL goes bankrupt there is danger in having a cancellation of the agreement with the United States for transferring technology to Greece for the construction of a plant for the production of synthetic propulsion rockets. Yesterday, responding to reports in an afternoon newspaper, the Ministry of Defense said that "there has been no refusal or delay by the American side on the transfer of technology, both during contacts between the interested American companies and the American Pentagon and during contacts between the Greek Ministry of Defense and the American Department of Defense."

However, it is a fact that, while PYRKAL has entered low-bid competition for the construction of the factory, the program which is now in progress may be blown to bits if PYRKAL goes into bankruptcy because of its bad management.

Labor Unrest

35210054b Athens RIZOSPASTIS in Greek
15 Dec 87 p 11

[Text] The PYRKAL management leans toward a cut in the company's operations and the dismissal of workers in order to deal with the company's financial impasse. During the last Board of Directors meeting the government spokesman proposed a merger of this company with the Greek Weapons Industry.

PYRKAL's financial situation is so serious that even its management has termed it desperate. According to reports, the company's budget deficit has reached 2.9 billion drachmas. The company is unable to fulfill specific orders because it lacks operating capital. One billion drachmas given to PYRKAL by the Organization for the Rehabilitation of Enterprises will be exhausted by Friday since by then the company will have to meet the payroll and insurance payments for the workers and employees. In face of this situation the workers' unions

embarked on an information campaign to update all their members on the company's condition and on the ways the crisis can be met. They also call on the government to finance the company with at least 3 billion drachmas and to proceed with the creation of a new agency for the armaments industry which should be under the control of a multi-party committee.

PYRKAL/EVO Antagonism

35210054b Athens PONDIKI in Greek 20 Dec 87 p 5

[Excerpt] The relations of our two armaments companies, PYRKAL and EVO have broken down as their managements have not met at all during the past six months. Why comrades...in arms? Why?

7520/12913

ITALY

Misar Official, 4 Others Seized for Arms Sales to Middle East

35280062c Rome LA REPUBBLICA in Italian
17 Oct 87 p 18

[Article by special correspondent Aldo Balzanelli]

[Text] Rimini—A former legionnaire with strong Rightist leanings, and a mysterious high-ranking retired Army officer, are the key individuals in an investigation of the arms traffic operation discovered by the Rimini investigative judge, Roberto Sapi, which has led to the arrest of five persons (the whereabouts of a sixth are unknown), and to 14 indictments for criminal association, illegal selling of war materiel, and illegal formation of capital abroad. The former legionnaire is Daniele Moschini, who has lived in Rimini for several years. The identity of the retired officer is being kept under closely-guarded reserve. He is a two-star general from Rome who, since leaving the Army, has been engaged in the selling of passive defense equipment and supplies: bullet-proof vests, armored glass, etc.

It is he who put Judge Sapi on the right track, although in Rimini the carabinieri had for some time had their eye on Moschini, a character with a stormy past, who for the past four years had been running a kind of "bouncers" agency which is patronized by many local establishments along the coast, and which has given a hand also to the security service of the "concerto di Madonna."

Moschini is a great talker, and in the night clubs of Rimini and Riccione he tells everyone he can procure any kind of arms whatever. Many consider him a windbag. But his past is full of mysterious happenings and of brushes with the law. Ten years ago he was involved in a kidnapping in Paris. Some years later he was arrested for a robbery in Corsica, and in the files of the Italian secret service his name appears in the list of Rightist extremists

considered "dangerous." During the 1970's the Florentine magistrates office also appears to have investigated him in connection with terrorist-linked acts.

One day in February of this year, Daniele Moschini and a Rome wheeler-dealer, Ugo Brunini (one of those arrested), met in Rimini, then left for Rome, where they had an appointment with the mysterious general. They indicated to the general that they were interested in large quantities of arms and asked him how they could go about procuring them. The general showed them a number of catalogs of Italian and foreign firms, where one could find every possible kind of armament: from bullets to surface-to-air missiles. "All legitimate publications," the general assured them. The two departed. But in March, the police searched the head office of their firm, finding nothing except the mentioned catalogs. However, with the passing of the weeks, and because of the eruption of the Valsella case, the general became worried. Afraid of finding himself enmeshed in a not altogether advisable situation, he gathered information on the characters who had come to see him, and discovered their stormy past—for example, the case of the kidnapping of the musical recordings industrialist Louis Hazan, which ended in the jailing of both Moschini and Brunini.

Around the beginning of October, the general reached a decision. He drove to Rimini, where, for four hours, he recounted to Judge Sapiro everything he knew. This action on his part averted his becoming involved in the investigation, which had by then made considerable progress. The carabinieri had long since tapped his phone, as well as those of others suspected of being involved in the clandestine arms traffic. They ended up with some 800 pages of tapped phone conversations, from which there emerged the outlines of an organization capable of supplying any and all types of armament, through Italian and foreign firms, to the countries against which the arms sales embargo is directed—Iran and Iraq in particular. The names of the import-export firms providing the outlets to the Middle East were brought to light. Orders would be received via the Euromac telex service in the offices of Abdul Hussein Abbas (the Monza-based firm owned by Kassim's younger brother); Franco Gaggero's G&G at Biella; and a Brescello-based import-export firm in the province of Reggio Emilia owned by a Jordanian citizen, Hanna Oraivey, the order for whose arrest was the only one not executed during the Wednesday night blitz. Also implicated in the matter is Mario Marass, a former Navy officer, of Varese, who was employed at Aermacchi until 1984 as a commercial consultant and is an electronic components specialist, and Giovanni Facchinetti, general manager of Misar, the Fiat Group's factory that produces underwater mines.

Misar, which through Gilardini is owned by Fiat, appears at this time to be not involved in the traffic. In this regard, Judge Sapiro, maintaining a position of total reserve, says only: "The mere arrest of the manager of a

firm is no grounds for indicting the firm's entire board of directors. The facts uncovered to date appear to indicate that Facchinetti acted on his own."

Thus, for months, the telephone wires buzzed with conversations that riveted the attention of the carabinieri. The talk was of missiles, bombs, rifles, machine guns. It also included references to Swiss bank accounts in which the proceeds of the illegal activity could be deposited safely. Figuring in the background were the ports of the countries that traditionally are used by arms traffickers to circumvent the embargo by means of the now-well-known "triangulation" pattern. In particular, in this case as well, the names that recurred most frequently were those of Turkey, Spain and Nigeria.

The Wednesday night blitz yielded no seizure of arms, but the carabinieri state in their report that "the documentary evidence exists that there has been traffic." The evidence is contained in hundreds of telex messages, in the intercepted phone conversations, and possibly in the documents seized during the arrests. The ring uncovered at Rimini appears to take the form of a seasoned organization specialized in clandestine arms sales, which, it would seem, were being interwoven with absolutely legitimate commercial operations.

Judge Sapiro has asked the Ministry of Foreign Trade to provide him with extensive documentation on the operations considered suspect.

9238/12913

Lack of Funds Plagues Patriot Missile Agreement
35280062b Milan *MONDO ECONOMICO* in Italian
30 Nov 87 p 33

[Article by Gianni Rossi]

[Excerpts] It has taken 3 years—three long years of discussions, exhausting negotiations and vacillation between the Italian and American Governments. Then, finally, the agreement: If Parliament can proceed without stumbling-blocks, Italy will have its first Patriot missile system batteries in a couple of years or so.

"This is the first concrete step towards the qualitative upgrading of our conventional defensive system," says Defense's General Staff, "especially considering what will happen after the signing of the treaty on dismantling the Euromissiles. With its 20 Patriot batteries, Italy will have a medium-to-high-altitude anti-aircraft defense system capable of fending off any possible enemy attack."

In fact, Italy has arrived a distant last in the race to acquire this very new air defense system, which is already in use in the FRG (28 batteries), the Netherlands and Belgium (4 batteries are to be delivered to each).

The agreement between Italy and the United States was initiated on 7 November of this year, in Washington, by Valerio Zanone and Caspar Weinberger. "This informal agreement," says Enrico Gimelli, managing director of Selenia, the firm that heads procurement for the Italian Italmissile consortium, which includes SNIA Defense and OTO Melara, "must now be ratified in the relative Memorandum of Understanding."

"The commitment calls for the Americans to supply 20 batteries with 160 launchers and 1,280 missiles. The missiles (all together worth around 3,000 billion lire) are to be manufactured in Italy by Italmissile in a joint venture with Raytheon. For our consortium, this means 6 years of work employing 6,000 persons."

The problem of the so-called "compensations" has undoubtedly been the thorniest one to resolve in the grueling negotiations between the Italians and the Americans, with talks on the verge of a breakdown at times. "The agreement, assuming it is concluded in a short time," adds Gimelli, "calls for an 80 percent compensatory arrangement on the entire quantity to be supplied. I'd also like to point out that this is the first time that we Italians will build in its entirety a fundamental part of a weapons system as complex as the Patriot."

The compensatory mechanism will enable coverage almost in full of the 3,600-billion-lire outlay through the supplying to the United States of the Italian low-altitude air-defense missile system—the Spada—which will be used by U.S. bases in Italy, together with other air defense services.

For the Italmissile consortium there is also the prospect of a profit (15 percent of the 3,600 billion lire in question), which it should derive from the sale of the Spada system within the United States, and from technological fallouts stemming from the licensed use of the patent. And that is not all.

Upon termination of this contract, the United States will suspend production of the Patriot system, leaving to Italy and Japan the potential for commercializing parts of the system that are manufactured in their respective countries. According to the managing director of Selenia (which had 1986 billings of 709 billion lire), the probability that this arrangement will lead to further productive developments is far from remote.

In this case, it would be possible, among other things, to develop an anti-missile system capable of being operative by the early 2000's.

While the Patriots may be on the way to arriving (although the oppositions on the part of the communists, socialists and demoproletarians must all still be overcome), the Cruise missiles, on the other hand, are on their way out from the Comiso base. There, very probably, is where the Patriots are to go, accompanied by some Spada system emplacements.

At this point, only one dark spot remains: How and where to find the 3,600 billion lire that must go into the Defense budget for fiscal year 1988.

"We are weighing the feasibility," says Paolo Caccia, vice president of the Chamber Committee on Defense, "of budgeting for the expenditure as multi-year incremental funding. Otherwise, we shall have to resort to the passing of a supplementary-budget law, although this would be a more long-drawn-out procedure." What is certain is that, unless a special-budget type of solution can be found, some sectors of the Army and of the Navy could raise serious objections to the agreement.

9238/12913

Air Force To Modify Deicing System of G-222 Aircraft

35280062a Rome *LA REPUBBLICA* in Italian
28 Oct 87 p 22

[Text] Rome—The deicing system of the G-222's, the Air Force's famous turboprops, is to be modified. The announcement of this decision by top management of the Air Force was made yesterday. It will affect the entire fleet of these twin-engined planes built by Aeritalia and considered the fathers of the ATR 42.

The modification is to be made to a part of the deicing system to extend the usability limits of the aircraft under icing conditions. The decision follows by a few days the questions put by the head of the Radical Party's group in the Chamber of Deputies, Honorable Francesco Rutelli, to the minister of defense and transportation, in which several abnormalities were cited, specific to the G-222. Over a period of three years, in fact, between 1983 and 1985, two of these planes crashed while on a firefighting mission, killing their crews consisting of four persons each.

In announcing its decision, the Air Force General Staff pointed out that "as far back as 1984, a program was put into effect to extend the limits of usability of the plane under icing conditions. The specific object of the program," the statement continues, "is to arrive at a new configuration of the engine and propeller deicing systems, so as to enable operation of the plane under the constraints imposed by the most severe military and civil aviation regulations." As regards icing, the turboprop's "weak" points are its engines and propellers. A number of cases have actually shown that ice forms predominantly at the engine air intakes, causing the engine to overheat.

The Air Force General Staff states that the results obtained to date "have enabled the defining of a new and more efficient configuration of the engine and propeller deicing systems, whereas the present wing deicing systems have proven fully satisfactory even under the most severe icing conditions." To test the proposed modifications, the announcement continues, "a contract is being

finalized with Aeritalia." At the conclusion of flight testing and the relative certification, "the modification will be extended to the entire fleet of G-222's," which for the time being is flying within the usability limits imposed by the present deicing systems.

On the ATR-42 front, the word is more days of waiting. The minister of transportation has in fact requested more time before making a decision regarding the order that has grounded the Colibri. Interviewed in Turin following the opening of the Bus Show, Minister Mannino did not yet exclude the possibility that the ATR's would soon be flying again. "I hope so," said the head of transportation, "but only under conditions of absolute safety. It is preferable that we be patient for a few hours or a few days in order to arrive at a result that we all hope for."

The need to wait another few days is linked to the definitive results that are to emerge from the analysis of the recordings made by the two black boxes, which have been returned to London to once more be decoded. Only then, probably, will the minister reach a decision and rescind by another order the grounding of the ATR-42's.

9238/12913

NORWAY

Armed Forces Planning Fewer Exercises in North for 1988

36390020b *Oslo AFTENPOSTEN* in Norwegian
30 Nov 87 p 5

[Article by Liv Hegna: "Fewer National Exercises in North"]

[Text] The Trondelag Brigade, which is earmarked for an effort in North Norway, next year will not exercise where it is to be deployed in case of war. In addition to reductions in allied exercises in the northern part of the country, the 13th Brigade, the so-called Trondelag Brigade, will not exercise in North Norway next year. According to what AFTENPOSTEN has learned, it will, on the other hand, exercise in Trondelag in the vicinity of its home base, in spite of the fact that it is to be sent to the north in case of a real war.

Besides, it has also been decided, as AFTENPOSTEN understands it, that an infantry battalion of the 15th Brigade (a review brigade) is *not* to be called up for the coming Arrowhead Express winter exercise. At the moment they are working against time in the organizing unit on making ready an infantry battalion from the "neighboring area," the South Halogaland Land Defense. This is regarded in military circles as important to accomplish, since otherwise the brigade in North Norway will not get a completely readied "opponent" during the coming Express exercise. As we know, it has already been decided that the British/Dutch commando brigade will not get to take part in the Express exercise

because of a deficient national capacity for host country support of individual sorts. All the same, the British/Dutch commandos will carry on their annual winter training, which will take place for the most part in South Norway.

8831

Latest Version of Penguin Missile To Be "Smarter"

36390020a *Oslo AFTENPOSTEN* in Norwegian
3 Dec 87 p 61

[Article by Hans Chr. Erlandsen: "The Deadly Bird"]

[Text] Out of a fjord, around a headland. The Penguin missile is on the way to an enemy ship. At a predetermined spot it dives down to the sea surface and continues at the level of the crests of the waves. Then some quick, diversionary maneuvers. Leap over the first ship, it was told. Where is it next? There! The radiation of heat towards the cold sea surface discloses where the target is. A quick motion, down to the waterline. An abrupt stop. BANG! The deadly bird has hit its target.

The barely three-meter-long Penguin missile was specially developed for use in Norwegian fjords. The investigation work that eight years later led to the first Penguin that was ready to use began way back in 1962. The technical challenge today is to get the third generation of the missile to function from a fighter plane like the F-16. What is it that makes the Penguin so special, even compared to other missiles made at larger arms smithies than Norway's?

The starting point was the need Norway's small naval vessels had for a powerful weapon against invasion vessels. A heavy cannon on an MTB was ruled out. So the navy, the Armed Forces Research Institute and Kongsberg Vapenfabrikk [Weapons Plant] began to look closer at a missile intended for destroying ships. It ought preferably to be inexpensive. It had to find its way to the target even if the target was out of visible range. The missile should preferably be impossible to fool or shoot down.

Independent

The missile also had to be such that it could manage by itself after launching. This placed demands on the on-board navigation system. The Penguin must know where it is being launched, where it is at any time during its flight, and, of course, where it is to go. For this purpose it uses an inertial-navigation automatic pilot and an altimeter that uses a laser (radar on the newest missiles).

The last stretch in towards the target the Penguin uses an infrared ranger-and-detector. It is the heat from the ship that is to be hit that it homes itself in on. An infrared

ranger-and-detector is less expensive than a radar set, for example, and is also harder to fool. Besides, the radar set transmits a signal that an enemy can use to get in a blow at the danger.

The thinking man's antiship missile. That is how KV represents its Penguin missile in the advertisement. Before being launched, the missile is fed with data on the target it is to hit. Not only can the missile be told which target it is to hit, it can told, for example, that it is the third ship that is to be hit. It is enough for the missile to be launched in the direction of the target. After launching, the missile does not require more information from the ship or plane or helicopter. This gives the flier or the vessel an opportunity to get away or concentrate on other targets.

Do the Most Damage

The missile is programmed to strike near the waterline, so that the damage will be as great as possible. The sea-based version of the missile has been sold to Sweden, Turkey and Greece.

A more advanced version is now being adapted for launching from helicopters and planes. The Norwegian air force will use the Penguin from its F-16 planes. Not until this becomes possible will the air force be able to counter an invasion with a proper weapon—almost 10 years after the F-16's arrived in Norway.

Smarter

The Penguin has now become smarter so that it can be used from helicopters or planes. Both the navigation system and ranger-and-detector are being rebuilt for this reason. The stress on the missile when it is used from the air is greater than when it is used from a vessel. A number of technical difficulties have arisen along the way and some of them are still being struggled with. Experience has shown that such problems are gradually solved.

Kongsberg Vapenfabrikk—called Norsk Forsvarsteknologi [Norwegian Defense Technology] today—has big ambitions of selling the Penguin to other countries. The interest from American quarters has been great, both for Penguins for use from helicopters and F-16's. The American navy is especially interested in getting Penguins for its helicopters. To its great irritation, today the U.S. Navy has to get the army to help it with helicopters and missiles in the Persian Gulf. If the Penguin manages to become accepted and purchased by the USA, this will be an important reference for other customers.

However, the scandal around Kongsberg Vapenfabrikk's and Toshiba's selling of technology to the Soviet Union has placed the Penguin in danger in the USA. A vengeful Congress has not given up on the fact that both Toshiba and KV should be punished. Therefore, the Penguin's flight in

the USA is still marked by political turbulence. Several more months will pass before it is known whether the Norwegian missile will fall down or hit the bull's-eye.

8831

PORTUGAL

Situation in Principal Arms Manufacturing Firms Described

35420047 Lisbon *O JORNAL* in Portuguese
15-21 Jan 88 p 25

[Text] Five firms are dependent on the state in one way or another: they are the firms in Portugal that manufacture arms and ammunition. Although their purpose is to produce arms, they are finding themselves "unarmed" in the face of the crisis.

"With liabilities totaling 4 million contos, INDEP [National Defense Industries] is working just to pay the interest." That is what *O JORNAL* was told by a well-placed source in the arms industry.

Established on 1 June 1981 by the merger of two other firms, INDEP operates plants in Braco de Prata, Barcarena, and Moscavide and is the majority stockholder in the Portuguese Explosives Company.

With 2,300 employees, INDEP produces the G-3 automatic rifle, the HK-21 machinegun, mortars, and the most varied assortment of artillery ammunition. Although it supplies the Portuguese Armed Forces, it sells about 90 percent of its production on the foreign market.

That, along with its obsolete technology and its undiversified production, is no doubt the basic reason for the crisis affecting it and making it comparable to a white elephant.

It produces G-3's, HK-21's, mortars, and 10.5mm artillery ammunition at its Braco de Prata facility, while ammunition of smaller calibers is put together in Moscavide. At the small plant in Barcarena, it is powder which provides jobs for the 60 workers employed there. Plans call for breaking up that facility.

In 1985, Alpoim Galvao spent 10,000 contos to buy out the two-thirds interest in the Barcarena plant that was owned by the Oeiras Foundry. That gave him title to the plant so that he could use it as a commercial arms firm.

Oeiras: Stoves for Libya?

The Oeiras Foundry was established in 1921. It is the example mentioned most frequently in connection with industrial conversion. Although less than half of its work force (450 of its 1,000 workers in 1985) is employed in the manufacture of defense materiel—specifically ammunition—that sector grew by about 9.7 percent in 1986 and is the most profitable of the firm's operations.

A routine supplier of ammunition for Iran, the Oeiras Foundry has decided to invest in diversification and produce "white goods," household electrical appliances, and technical assistance for that new line of production.

Oddly, the Middle East may continue to be the final destination of most of its products if an agreement is reached with Libya to manufacture three-burner stoves in that country.

With sales totaling 5.4 million contos in 1986—an increase of 8.4 percent over the previous year despite the decline in the value of the dollar, which is the currency used for about 80 percent of its commercial transactions—the Oeiras Foundry seems to be emerging from the tunnel. In 1986, its profits amounted to a little over 32,000 contos, although it wound up with an unfavorable net result of 71,000 contos.

The state, acting through the Portuguese Institute for State Stockholdings [IPE], owns 97 percent of the firm's capital stock, the rest being in private hands.

COMETNA: In the Realm of Bombs

Since the end of the last century—more specifically, since 1889—the National Metallurgical Company (COMETNA) has been working with iron and steel. It had about 1,800 workers in 1985.

In the arms industry, COMETNA produces the most varied types of bombs—from training bombs to fragmentation bombs and including laser-guided bombs.

Like all other Portuguese arms firms, it produces mostly for export. That explains why, according to its accounting report for 1986, it had to accept the very low prices imposed on the international market by strong competition.

Prominent in the field of defense is the Directorate of Special Engineering, which generated more than 1 million contos in 1986. Outstanding achievements were the development of three new products and a number of actions which may make it possible by the end of the decade to introduce a product in the area of civilian equipment.

About 90 percent of the firm's capital is owned by the IPE, the rest being divided between the Alves family, the former owner of the firm, and other individuals. As a metallurgical firm in which the state exercises majority control, COMETNA is part of the METALGEST group, a state-owned holding company that is pushing reconversion, specifically into the production of waste treatment equipment and equipment for companies producing wood pulp.

SPEL Still Dependent on Defense Materiel

The Portuguese Explosives Company (SPEL), which fills ammunition, had sales of 2.1 million contos in 1986. It is one example of the dependence which still exists in relation to defense materiel.

Established in 1928, it was the firm that pioneered the production in Portugal of explosives for civilian use, but according to its accounting report for 1986, "it was confirmed last year that the production and sale of civilian explosives and firing accessories is insufficient for ensuring the firm's equilibrium" and guaranteeing jobs for its workers.

That finding cuts even deeper when it is realized that civilian use of explosives is related to public works, a sector which experienced an increase in activity 2 years ago.

However, the resulting increase in orders did not exceed 60 or 65 percent of what was needed, leading to the conclusion in the report that it was indispensable for "the production and sale of defense materiel to play a part in overall activity."

With INDEP as its majority stockholder (50.8 percent), the Portuguese Explosives Company has been harmed to some extent by the crisis affecting the "white elephant." The other stockholders are two banks—the Holy Spirit and Commercial Bank of Lisbon (5 percent) and Fonsecas and Burnay (4.9 percent)—a domestically owned private company called ENFACAL (owned by the Carmelo family, descended from the firm's founders), which owns 25.7 percent of the capital, and Dyno Industries, a Norwegian firm that owns 9.9 percent. The rest is divided among small Portuguese stockholders.

Difficulties at EXTRA

The situation is also one of crisis at the Trafaria Explosives Company (EXTRA), even though that firm has over 100 years of experience in the field of explosives.

Employing 300 people at its Rego da Amoreira plant in Montijo and its offices near Marques do Pombal Square, it began producing defense materiel only 17 years ago. It fills shells and mines of the most varied types as well as aircraft bombs, ammunition, and mortars.

In 1985, the Trafaria Explosives Company showed a net loss of over 800,000 contos. One year later, its losses were up to more than 1 million contos, and that, after amortization, resulted in a net loss of 1.6 million contos.

It is a supplier to the Portuguese Armed Forces and has also had export contracts. It is controlled by the state through the Portuguese Financing Company, which owns 51.3 percent of its capital, the rest being divided between the Rio Tinto Explosives Company of Spain (24 percent) and a Portuguese private stockholder.

SPAIN

Restructuring of Armed Forces Leadership, Flag Officers' Posts

35480049 Madrid YA in Spanish 14 Dec 87 p 3

[Text] Madrid—The Defense Ministry, in cooperation with the chiefs of staff, has decided to restructure the headquarters of the three branches of service, to gear them to the current requirements and to the Western armed forces with which collaboration is being increased. The first result, which has met with rejection from the military commanders at the outset, is the reduction in certain lieutenant general posts, curtailing their expectations for promotion.

At the year's end, the Air Force will lose one of the seven lieutenant general slots that it has, when the chief of the King's Military Watch, Jose Santos Peralba, joins the reserve. This assignment is held by a general officer of one of the three branches of service; but because it was previously held by Gonzalo Puigcerver, of the same branch, it is highly unlikely that an airman will receive it again.

Of the other six current lieutenants general, the defense chief of staff is another alternating command, but one that they will retain until the end of the legislature, because these are positions directly filled (without any time limit) by the defense minister.

The five staff positions are those of the chief of staff (Federico Michavila), the chief of the combat command (Luis Delgado Sanchez Arjona), the chief of the tactical command (Jose Mora), the chief of the transport command (Ignacio Martinez Eiroa), and the chief of materiel (De la Cruz). The personnel command (as in the other two branches of service) was previously held by a lieutenant general, and is currently assigned to a division general. One of the possible changes is the creation of a logistical command, headed by a lieutenant general, imitating the pattern in the Army and Navy. The Air Force staff will be the one undergoing the least change, because, during recent years, it has adapted to the new military doctrine by itself.

Three Extra Positions

In view of its larger size, the Army currently has 13 lieutenants general, although its staff law stipulates only 10 posts, pertaining to the chief of staff, the chief of the superior personnel command, the logistical backup command, and seven commanders-in-chief of the six military regions and the Unified Command of the Canaries.

The three extra lieutenants general that it has at present are the general director of defense policy, Francisco Veguillas; the representative to the NATO Military Committee, Jose Pardo de Santayana; and the director of CESID [Superior Center for Defense Intelligence], Emilio Alonso Mangano. The first and last are posts that

may be filled in the future by civilians, and that of the Atlantic Alliance will rotate among the three branches of service; therefore, within 2 years, the Army top echelon will have narrowed.

Until a few months ago, the chairmanship of the Supreme Council of Military Justice was occupied by Lt Gen Eloy Rovira who, upon receiving the post of commander-in-chief of Madrid, left the chairmanship of a council that will go out of existence in the middle of next year vacant permanently.

Based on the current plans, which may possibly not be implemented until the middle of 1988, and which will undergo this gradually, the number of general officers will be retained, although one will be created and another abolished. The principal change will be the creation of the management body (responsible for permitting the units to be operative), which will be commanded by a lieutenant general. The philosophy underlying this change seeks to enhance the Army's preparation to cope with a war, maximizing the facilities that would enable the troops to live and fight.

The superior personnel command, currently headed by a lieutenant general, will decline in rank (just as in the other branches of service), with the establishment in the Defense Ministry of a civilian general directorate, which is fully assuming its authority and coordinating the Armed Forces' personnel policy and that of the department's civilian personnel. Understandably, authorized bodies must now be maintained in every headquarters, but it need no longer be lieutenants general or admirals who head them.

The materiel commands of the three branches of service, formerly occupied by generals with maximum seniority, have now been lost, upon their installation in the General Directorate of Weaponry and Materiel. The position in the Army is held by Div Gen Jose Suanzes.

The Navy currently has six admirals, who occupy the staff headquarters, that of logistical backup, the maritime zones of Cantabrico, the Strait, and the Mediterranean, and the General Directorate of Weaponry and Materiel. The latter need not necessarily be occupied by a seaman; hence, within several years they will be adapted to the five posts stipulated in their staff law.

The restructuring will entail a total change in the concept of the high command in the Navy. Apart from the chief of staff, Fernando Nardiz, and the chief of logistical backup, Jaime de Inclan y Giraldo, the most important position will be that of the chief of the fleet, currently held by Vice Adm Joaquin Maria Dominguez, which is soon to be assumed by the still vice admiral, Gonzalo Rodriguez Martin Granizo, when he is promoted to the rank of admiral.

**Establishment of NATO Pilot Training School,
Proving Ground**
35480044 Madrid DIARIO 16 in Spanish 5 Dec 87 p 5

[Text] The assignment of the instruction and training of NATO war pilots to Spain is subject to the installation of Europe's largest air proving ground in our country. The government has maintained the Cabaneros property as a potential site although, it is claimed officially, a different option is being sought. The Aeronautics enterprise, CASA [Aeronautical Construction, Inc], might contribute about 100 C-101 training planes to the new school.

Madrid—The possible location of the NATO war pilots' school in Spain is closely linked with the installation of a large air proving ground in our country, which would also be used by the allies, as government sources disclosed to DIARIO 16.

In 1984, the Socialist government had decided that the ideal location for this proving ground would be the Cabaneros (Ciudad Real) property; and, this past October, it made the final payment for the purchase of the land, valued at 828 million pesetas. Nevertheless, strong political pressure and that from ecological associations halted the project; and, at present, the autonomous government of Castilla-La Mancha has initiated proceedings to declare Cabaneros a natural park.

Meanwhile, according to official sources, the Defense Ministry is seeking options other than Cabaneros, so as to construct the military proving ground with maximum speed. If such an option is not found, Cabaneros would end up becoming the largest air proving ground in Europe.

Pressuring NATO

The informing sources noted that the urgency to install this proving ground is due not only to the requirement that the FACA program's F-18A's must begin training on it, but also to the pressure brought to bear on the Atlantic Alliance for granting the training of NATO combat pilots to our country.

Currently, these pilots are being training at an air base in the United States, but the high cost entailed by training on the other side of the Atlantic has prompted NATO to seek an alternative in Europe.

In addition to Spain, there are two other countries that have submitted their bids for locating this pilots' school in their respective nations. They are Italy and Turkey, although it is thought that, if the Spanish Defense Ministry ultimately succeeds in building a large proving ground either in Cabaneros or on another site, Spain would be the one to assume that responsibility.

This topic was discussed last Tuesday and Wednesday in Brussels, by Euro-Training, at the various meetings held by the NATO Defense Plans Committee, which were attended by the defense minister, Narcis Serra, accompanied by several experts.

It is Euro-Training's purpose to foster multinational agreements among the European countries to improve the training of NATO's military personnel; and, according to sources on the Spanish delegation, the site on which the pilots' school will be located was discussed, although not in much depth.

According to the aforementioned sources, Spain is acting with the advantage of enjoying better environmental conditions for pilot training than the other two countries; having, particularly in the Castilla-La Mancha, Extremadura, and Andalucia areas, weather conditions that keep the air space free of clouds and foginess nearly all year long. It is in that large area of the peninsula that Cabaneros is located, and where the different options are being sought, according to official sources.

The experts claim that the war pilots, in order to maintain a good level of instruction, require an air space that is "blue and with flies" during most of the year; in other words, without any type of atmospheric element that would prevent the flight of the aircraft.

New School

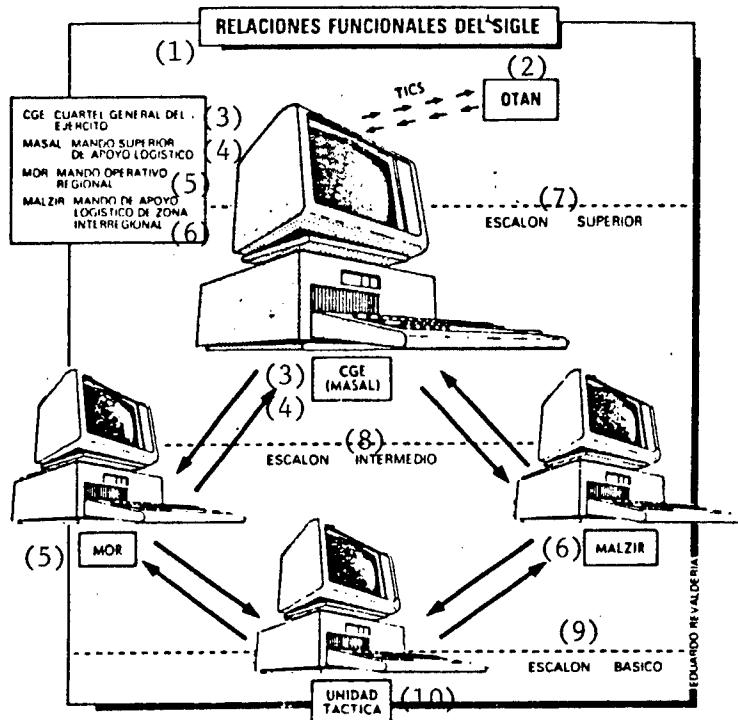
According to the experts, the south of Spain meets those requirements, and the Talavera la Real (Badajoz) air base, at which the F-5's are stationed, would be the ideal site for locating the new NATO pilots' school. This base is currently serving as the Air Force's attack and pursuit school.

This base would be near any proving ground built in the south of Spain and, hence, would be a good supplement for the Alliance pilots' basic training.

According to reliable sources, at present major repairs are under way on the takeoff and landing strip at this base, with a new ground surfacing and an expansion of the area.

The cost of this work amounts to about 400 million pesetas, although the aforementioned sources claimed that these repairs have only coincided, in time, with the possibility that Talavera might become a pilot instruction and training school.

The granting of the new Alliance pilots' school might possibly have strong economic repercussions for Spain in the aeronautics sector; because the CASA enterprise has prepared a bid for the supplying of training aircraft.



Key:

1. Functional Relations of SIGLE
2. NATO
3. CGE - Army Headquarters
4. MASAL - Logistical Support Higher Command
5. MOR - Regional Operational Command
6. MALZIR - Interregional Zonal Logistical Support Command
7. Higher echelon
8. Intermediate echelon
9. Basic echelon
10. Tactical unit

The studies made call for a supply of about 100 C-101 planes, similar to those used by the Air Force pilots at the San Javier and Salamanca Schools. The budget for that operation would amount to approximately 50 billion pesetas.

2909

SIGLE System To Computerize Defense Logistics 35480057b Madrid ABC in Spanish 21 Jan 88 p 23

[Text] Madrid—During times of crisis or war, the allied nations may use the Army's Integrated Logistical Management System [SIGLE], one of the most revolutionary

features in the current process of reorganizing the Army, which will provide computer backup for the entire logistical system. Approximately 5 billion pesetas will be invested in SIGLE, which has already been installed in the three major divisions: armored, motorized, and mechanized.

Modernization of the management of the material and personnel resources was one of the priorities set by the Army chief of staff, Lt Gen Iniguez del Moral, in the Planning Guidelines issued last year.

SIGLE will provide a computer backup which will automate the procedures for management and allocation of

material and personnel resources in a standardized manner. In this system, logistical functions as varied as supplies (including ammunition), maintenance, transportation, works projects, health assistance, administration, and personnel will be integrated.

Its complexity lies in the need for interconnecting these functions under the conditions of geographical dispersement of the units, and for establishing, in addition to this horizontal network, a chain of command network that will connect three levels of logistical commands: those relating to the tactical units (ranging from battalions to divisions), those of the zonal logistical organs (regional operational commands, and interregional zonal logistical commands), and those of the higher logistical organs (higher personnel command, higher logistical support command, and directorate of economic affairs).

The Logistical Management System will make it possible to become apprised of, and transmit data in real time on the level of resources available, and to determine requirements. This will afford a centralized management of the logistical functions, and decentralized execution; while at the same time speeding the decision-making by the commanders, who will be able to have exact control over the resources.

The Integrated Logistical Management System has been devised during the past 2 years by a team comprised of the Army Staff. One of its basic specifications stems from Spain's involvement in the Western defense; hence, the system devised is an open structure, with a capacity for "outside" relations.

SIGLE will be inter-operative not only with the Spanish Air Force and Navy, but also with the logistical support systems of the allied armies. According to the Technical Intercommunication Common Standards (TICS) determined by NATO, SIGLE uses the several levels of OSI international standards.

Among the cooperations agreements that Spain and the Atlantic organization will formalize for the use of Spanish territory as a NATO logistical base, according to reports from military sources, there is a stipulation that the allies may use the computerized logistical structure.

2909

Additional CN-235 Aircraft Ordered
35480057a Madrid TIEMPO (de Economia) in Spanish
25-31 Jan 88 p V

[Text] The Aeronautical Construction enterprise (CASA), subordinate to the National Institute of Industry (INI), has received more orders for its latest airplane model, the CN-235. After the recent purchase of several aircraft by Iberia, which will cover the third line connecting with the Canaries, the company, headed by Javier Alvarez Vara, will supply several CN-235's, to be sent to a North American country, Canada, and to

another African one, Botswana. Saudi Arabia, which also recently purchased several CN-235 aircraft from Aeronautical Construction, has expressed its intention of increasing the order.

2909

Arms Firms Vying for Mirage III Modernization
35480042 Madrid TIEMPO in Spanish
7 Dec 87 pp 110-116

[Article by Manuel Hermogenes: "The Battle of the 'Mirage' Brings Industry and Defense Into Confrontation"]

[Text] Two Spanish enterprises, one public, CASA [Aeronautical Construction, Inc], and the other private, Ceselsa, are contesting for a contract involving 23 billion, to modernize the Air Force's Mirage III aircraft. The Defense Ministry's initial decision to give the contract to Ceselsa has met with strong opposition in the Ministry of Industry, which wants CASA and its associates to win the battle.

The deal is up in the air. The pressure exerted on the Defense Ministry has succeeded in curbing a decision that seemed publicized: that of awarding to the private Spanish firm, Ceselsa, and the Israeli company, Israel Aircraft Industries (IAI), the contract for the modernization of 24 Mirage II aircraft belonging to the Spanish Air Force.

The decision regarding this contract, which involves an investment of 23 billion pesetas, was supposed to have been made last September. By that date, the technicians from the General Directorate of Weaponry and Materiel (DGAM) had already prepared a report in which this bid from Ceselsa was assessed positively, ranking ahead of the other one also submitted for the award of the contract.

Public Competition

The rival of the joint bid from Ceselsa and the Israeli firm, IAI, is the public enterprise, Aeronautical Construction, Inc (CASA), belonging to the National Institute of Industry [INI]; which is competing on this occasion allied with Inisel and the French companies, Marcel Dassault (manufacturer of the Mirage) and Thomson.

Now, the final verdict has been postponed until the year's end. This extension will enable those responsible for the purchasing policy of Narcis Serra's department to scrupulously reexamine the two bids that have been submitted; a period of time that could serve to change the original decision.

The necessity for modernizing the Mirage III is another result of the cut suffered, before its approval, by the program for the Future Combatant Attack Plane (FACA), designed to provide the Air Force with modern equipment that would be capable of replacing, with advantages, other more antiquated types, with many hours of flight behind them.

The report prepared in 1978 by the Air Force Staff noted that the new aircraft should, by about 1984, replace the F-4C, F-5, and Mirage III, which were no longer operational, "owing to their physical old age and their technical obsolescence."

At that time, the Air Force's plans entailed the purchase of nearly 150 new aircraft; a desire that failed to be corroborated later, because of reality. The budgetary requirements reduced those expectations in half. Ultimately, only 72 F-18's would arrive in Spain.

This curtailment forced a reconsideration of extending the operational life of the Mirage III, the aircraft which arrived in 1970 at the Manises air base, and which, by 1983, had already logged over 50,000 flight hours. It was then that consideration was given to the program to modernize these airplanes.

The modernization would include, basically, a thorough modification in the avionics (flight electronics) of the aircraft, which had become antiquated and was turning the Mirage into an overly vulnerable target. Changes would also have to be made in the aircraft's structure.

Israeli Bid

When Narcis Serra's department made public its intention of carrying out the modernization program, the first bid received was that from the Israeli company, Israel Aircraft Industries (IAI), offering by itself to execute the modification in the aircraft.

In the Defense Ministry offices, they were discussing a bid that was not very well received. The well-known philosophy of conducting a contract policy favoring the development of a completely Spanish technology does not have much in common with a 100 percent foreign bid.

A Spanish bid was needed. But at that time, Aeronautical Construction, Inc (CASA), the state aeronautics industry then headed by Fernando de Caralt, had not intended to participate in a program where in the greatest weight was carried by avionics, a field in which the public holding company was not concentrating a large share of its activity.

At the time, the heads of Ceselsa came in contact with the Israelis. In its talks with the representatives of Israel Aircraft Industries, the company headed by Jose Antonio Perez Nievas pushed hard to have the joint bid contain a major portion of Spanish technology. Finally,

the offer was devised. Ceselsa would make the modifications in the avionics (75 percent of the total program), and IAI would make the changes in the airplane's structure (25 percent).

As a result of this distribution, Ceselsa could apply in the modification of the avionics of this aircraft a technology of its own, developed during its experience as a manufacturer of the McDonnell Douglas F-18 simulator, a fact which represented for the private Spanish firm a contract involving 5 billion pesetas. IAI, for its part, would be the one responsible for making changes in the nose of the aircraft, to which two "canards" would later be affixed to improve its aerodynamics.

It was then that the rival bid appeared. Aeronautical Construction (with a new president in the person of Javier Alvarez Vara) submitted a joint project with Inisel and the French firms, Marcel Dassault and Thomson, to modernize the Mirages. In this instance, the two French companies would carry the greatest weight in the bid (a 60 percent contribution of technology), and the rest would be associated with the two INI enterprises.

The appearance of this second bid on the scene has been given various interpretations. One of them, cited at the outset by the detractors of the Ceselsa-IAI joint bid, is that the French manufacturer, Marcel Dassault, had sponsored this joint bid with CASA to prevent the Mirage technology from possibly falling into the hands of the Israelis.

This explanation which, in other cases, might have certain glimmers of reality, is, nevertheless, not very supportable in the specific instance of the Mirage III; 20-year old aircraft with electronic systems which have been greatly surpassed and which, therefore, are not likely to be imitated.

The most likely reasons must be sought in the industrial area. Access to this contract is essential for CASA, at a time when its billing is dangerously stagnant, owing to the fall in the dollar and the scarcity of orders. The news of the granting of the contract would be a slight breather in a company subjected to a viability plan that will lose nearly 15 billion pesetas this year.

This concern on the part of CASA is shared by the airplane manufacturing firm, Marcel Dassault (owner of 0.5 percent of CASA's capital), which is currently undergoing a delicate situation caused by the reduction in the backlog of orders for the Mirage.

To complete the picture of the Spanish-French bid, the other associates, Inisel and Thomson, are Ceselsa's old rivals. In the case of Inisel, INI's electronics group, headed by Eduardo Moreno, has recently waged a hard battle with Perez Nievas' company over the awarding of one of the contracts for the Sacta plan, to modernize Spanish air traffic control.

On that occasion, the contract for 3 billion was distributed between the two firms (60 percent for Ceselsa, and 40 percent for Inisel). The trigger for reaching agreement between the competitors was the possibility that a third company, Hughes of the U.S., would ultimately make off with the sumptuous contract.

The fourth one in dispute, Thomson, is recalled with distaste by the Ceselsa board members. The French firm was the one that eventually took the contract for the construction of seven Airbus-320 simulators, in a harsh competition with the Spanish company. Although Ceselsa submitted the best economic bid, the pressure from the French state (which has a 37 percent share in the Airbus consortium) caused Thomson to receive a substantial contract involving 15 billion pesetas, for the simulator construction.

Spanish Technology

With this major restraint on the government's final decision on the Mirage modernization, history seems to be repeating itself. The technical decision, favoring the Ceselsa bid at the outset, has been brought into question by external pressure on Narcis Serra's department. This rivalry between CASA and Ceselsa is only a reflection of the different positions held by the Ministries of Industry and Defense regarding the configuration of the Spanish defense industry.

During recent years, the Defense Ministry has maintained a policy on purchases giving priority primarily to the development of our own technology. This was the main reason that the private firms in the sector (more concerned about the development of technology) have taken a considerable share of the contracts awarded by the Defense Ministry. On the other hand, some public enterprises have not moved beyond being mere subcontractors or final builders for developments thought up in foreign firms. This defense to the end of our own technology had its leader in the last state secretary for defense, Eduardo Serra, who complained privately about the operation of the enterprises in INI's Defense Division, particularly the Bazan National Enterprise. Serra, who sat on the Board of Administration of the National Institute of Industry, representing his ministry, argued that the greatest flaw in these enterprises was the lack of a technology of their own.

To be added to this problem in certain cases, such as that of CASA or Bazan, are the special labor problems curtailing production processes. In the case of the latter company, the problems have been reflected in considerable delays in the delivery of ships to the Spanish Navy, as in the case of the aircraft carrier, "Principe de Asturias."

INI, for its part, defends to the end the role of the public defense industry. This view has its maximum support in the present minister of industry, Luis Carlos Croissier, who was at one time president of the public holding company.

Also holding this opinion is the current president of CASA, Javier Alvarez Vara, who, in a report from the Ministry of Industry on the Spanish military industry, claims that the institute is not opposed to the process of the entry of private enterprise, "because, over the long term, the increased competition will be reflected in greater effectiveness among the public enterprises."

Nevertheless, Alvarez Vara expresses criticism of the Defense Ministry's contract policy, which has turned the public enterprises into the sector's "Cinderella." "Nevertheless," he adds, "this increasing openness should have its other side, from the standpoint that INI and its companies should not bear maintenance costs of equipment for national defense, which could be unproductive, although necessary."

Militarized Companies

Like the Defense Ministry officials, the president of CASA is concerned over the crisis that enterprises such as Bazan or Santa Barbara are undergoing. But his solution is based on a different premise. The current legal framework connecting them with the Defense Ministry needs to be revised, and "compensation must be given to the companies that are bearing costs which are not inherent in the manufacture and marketing of products."

In the Ministry of Industry offices, they feel badly that the private firms are taking a large portion of the investment made by the Defense Ministry (which has a budget of nearly 800 billion for next year); while the public enterprises "are little less than militarized, entailing a severe inflexibility when it is time to be competitive."

The Mirage contract is another dispute associated with these dynamics; this time, affecting a company such as Ceselsa, which, since its founding in 1979, has multiplied its billing by 10, attaining sales involving over 7 billion pesetas in 1986. This is a company whose backlog of orders is largely nurtured by the administration, (essentially, by the Defense and Transportation Ministries), and which has even taken the liberty of snatching from McDonnell Douglas itself the construction of the flight simulators for one of its most sophisticated aircraft, the F-18.

The solution will be shelved until the year's end. Ultimately, it will be the Council of Ministers that will make the final decision. The loser by a K.O. in the first round may win on points in the second fight.

SWEDEN

New Water Material Inspector Announces Tightened Export Rules *36500041 Stockholm SVENSKA DAGBLADET in Swedish 7 Dec 87 p 6*

[Interview with Sven Hirdman, war material inspector, by Peter Carlberg; date and place not specified: "New War Material Inspector Wants To Survey the Electronics Business; Rules for Arms Export Being Tightened"]

[Text] A new spirit has been introduced into Swedish war material export and its verification. Rules will be tightened and export licenses will be granted more restrictively. According to Sven Hirdman, Sweden's new war material inspector, electronics currently termed free will be considered war material in the future.

Sven Hirdman is neither a military man nor an industrialist, he is a diplomat. He knows precisely what an unguarded word can mean. He has the knowledge needed to work in the field of war material inspection, acquired, among other things, when he was an undersecretary in the Defense Ministry in the second Falldin government, 1979-82.

He has also been involved in the development of the new Swedish fighter plane, JAS-Gripen, and been the assistant head of Stockholm's Peace Research Institute, Sipri. His work at the Foreign Ministry, from 1963, has given him a good insight into world conditions.

Mostly a Duty

He started his work as war material inspector on 5 October and he has barely had time to learn the ropes. He says he finds the work exciting and interesting but mostly speaks of it as a duty. He left the post of ambassador in Tel Aviv, Israel when the government called.

"And when the government calls, I think you join in. I don't mean to imply I don't think it will get interesting," he says, adding that he views the job as a challenge which can be frustrating in certain contexts.

Being war material inspector is also hard work, days often start at 0500 hours. The uproar over the Bofors affair and the sudden and violent death of his predecessor, Carl Algernon, makes the job especially demanding.

Important To Investigate Why

"Somewhat naively I had hoped not to get bogged down by past mistakes," Hirdman says.

He thinks it is good that the police are now thoroughly investigating what happened and also that the special citizens commission is pursuing its inquiry as far as it is.

"It is important not only to investigate what happened but to see why it happened," he says.

Broader Experience

Hirdman is the first war material inspector who is not a military man since the War Material Inspectorate (KMI) began in 1933.

[Question] There must be some reason the government departed from a 50-year tradition so that a diplomat is now in the position instead.

[Answer] You should really ask the government about that. But there were a number of problems regulating the export of arms, mistakes were made, that is certainly quite clear, Hirdman says, believing that this bears primarily on the choice of countries and the classification of material.

[Answer] And it has indeed been said that they want someone in this post with broader experience.

With Sven Hirdman, the government is also carrying out a number of changes not just concerning the KMI itself but concerning changes in the law and verification as well.

A Bill Last Spring

"The rules will be tightened," Hirdman says.

Last spring a bill was introduced proposing tighter rules. These rules aim primarily at having arms producers provide information on current deals, at limits on marketing and increased cooperation with Customs, plus tighter requirements for end user certification.

At the same time, the issue of why Sweden exports arms at all is being addressed. In terms of trade policy, arms exports lack interest, they comprise one percent of all exports and could easily be replaced with something else. What remains are reasons of private finance, of labor policy and security policy.

"The only reasons we approve of are those connected with security policy, that arms be exported as one way of guaranteeing production for our own Swedish needs."

Difficult To Classify

A committee will attempt to establish what level is required to do this. Sven Hirdman believes it will make matters a good deal easier.

"And it is possible this level will bring about fewer exports, but not necessarily."

A second problem with the export of war material is knowing just what war material is. A special committee will also examine classification issues.

Sven Hirdman believes that here as well the rules will be tightened.

"Certain items which are not considered war material today will probably be so considered in the future," he says.

[Question] Can you give examples of such items?

[Answer] I think the most obvious current item is electronics. It may become appropriate to be much more careful as we check to see what it is geared for.

Deals Not Stopped

However, Hirdman does not think that deals such as Boghammar Marin's sale to Iran of boats which are now being equipped with guns and used for fast attacks at sea or Libya's purchase of boats which can operate as remote-control above-water torpedoes will be stopped in the future.

"We can't look at who the buyer is, whether they're private individuals or a war power in a certain country. What is decisive is whether the material is suitable for military use when it leaves Sweden."

[Question] But shouldn't the question of how the material is to be used after it has been acquired be decisive?

Hirdman thinks it is difficult to know in advance how material is to be used if arms are not involved.

[Answer] As far as the boats to Iran are concerned, we have examined this and found the boats to be very unsteady and hard to fit out with any heavy weapons. In the case of the boats sold to Libya, I got reports in Israel but nothing since has indicated that the reports were true.

Could Have Refused

Hirdman points to what Foreign Trade Minister Anita Gradin said in the Riksdag about the Iranian boats. Her view is that they are not war material but that Sweden could still have denied permission to export had there been the danger that the boat could increase tension in the region.

"A certain restraint is natural," says Hirdman, who suggests that in the future KMI and the government will exercise such restraint.

[Question] But wouldn't it also be natural to halt the export of trucks, shoes, uniforms and trouser buttons to Iran's war machine if arms exports are banned—the other material certainly prolongs the war as well?

[Answer] We are sticking very firmly to the concept of a weapon. Otherwise it will be terribly hard to set limits on civilian business. Then too there is the fact that Sweden is a non-aligned country, we need free trade and that is a consequence of our neutrality too, according to which we need to have normal relations with all states. Otherwise we risk being the object of trade sanctions from one side or the other.

12789/7310

FEDERAL REPUBLIC OF GERMANY

Economic Uncertainties Linger as New Year Begins

3620053 Dusseldorf *WIRTSCHAFTSWOCHE*
in German 18 Dec 87 pp 36, 37, 39, 42, 45

[Text] During the past year, the Bundesbank and the Federal Government found themselves in the crossfire of international criticism. The economic outlook for 1988 depends mainly on Bonn's and Frankfurt's ability to do away with the instability besetting the economy and financial affairs which they themselves have caused.

Wolfgang Roeller, management spokesman for the Dresdner Bank AG, is sitting on the 31st floor of its Bank Tower in Frankfurt/Main. Spotlights are illuminating the scene inside. Outside, fog banks are drifting by. But the general manager is undeterred by the clouded prospects. "We believe that during the next two years there is a chance of growth of 2 percent."

About 200 kilometers away, in Cologne, the economists of the Institute of the German Economy (IW) are still crunching their numbers on the fourth floor. Their first round of calculations turns out as bleak as the cold, humid weather on the Rhine: according to their results, the German economy will grow by less than one percent in 1988. Should the men in Cologne be correct in their preliminary prognosis, the growth rate of the FRG economy will be a fraction of 1 percent for the first time since 1981.

The list of predictions runs on ad infinitum. Since the stock market crash and the drop of the dollar analyses are being prepared to suit everyone's taste. Take the one by Marc E. Leland, a former secretary of the U.S. Treasury: "Crisis? What crisis? Economic conditions aren't bad at all."

On the other hand, Ute Geipel, chief economist of the Frankfurt Citibank AG, worries: "We are faced with a severe recession. It will start next year."

Western politicians differ as much in their opinions as do the economists, who are under particular stress these days. Good decisions are hard to come by, because the various proposals for remedial action are just as controversial as are the diagnoses. U.S. economics professor and long-time presidential advisor Martin S. Feldstein would let a free currency exchange take care of all corrections of economic imbalances worldwide. State Secretary Hans Tietmeyer of the FRG Finance ministry on the other hand considers this procedure "extremely dangerous, risky and recession-prone." For his part, he urges a reconvening of international talks similar to the Louvre Accords of Paris in February 1987 for stabilization of the dollar.

German business too appears insecure. Edzard Reuter, who became the most prominent entrepreneurial social democrat upon assuming the chairmanship of Daimler-Benz, has not only been named Manager of the Year, but also became the most-quoted manager following a lecture in the United States. A possible way out of the present situation, said Reuter, could be successful only "if we at least had the capability of counteracting the catastrophic lack of business policy leadership of our governments."

But even as conservative an industrialist as BMW boss Eberhard v. Kuenheim deplores "a certain amount of lethargy" in politics, with the result that "many well-managed enterprises are now having second thoughts about their previously announced investment plans and are reorienting themselves toward economy measures."

The fact that German businessmen show reactions similar to those of Reuter and v. Kuenheim, despite acceptable business figures and full cash registers, is not the result of the stock market disaster alone. The vote of no confidence against German economic, financial and monetary policies and their capability of asserting themselves internationally, has been on the program for some time:

—with the departure of Gerhard Stoltenberg, the one-time shining light of the Kohl administration, confidence eroded in a continued solid financial policy which Bonn had promoted;

—the illusion by the Bundesbank that it was capable of conducting an anti-inflation policy autonomously diluted general interest in a permanent money supply policy and thus the belief that it was based on a specific concept;

—realization that international cooperation in financial markets (the Plaza and Louvre Accords) could not, in the absence of economic policy decisions, bring about long-term stability in exchange rates to date, increased misgivings about the stubborn German attitude;

—finally, the coalition parties with their endless debates about tax reform and its financing, and also internal Union party strategy discussions caused business to have serious doubts about this administration's competence in economic matters.

At the beginning of this year, after winning the Bundestag elections, Gerhard Stoltenberg promised that "the first step will be to impose discipline in the expenditures process." But he was just as unsuccessful in keeping this promise as he had been with others: privatization and a reduction in subsidies. Even worse: the newly elected coalition government was sowing insecurity from the very beginning with a whole raft of proposals. The discussion about a special tax rate for very high incomes had all the fatal earmarks of a confiscatory tax discussion, which one would have thought possible only during

the socialist-liberal period. Finally, the tactically correct decision to decide on financing in the fall coincided with the stock market crash. Confusion was rampant. Despite the total tax reduction of more than DM 40 billion, the majority of the citizens does not expect any benefits from tax reform.

But even from the standpoint of the German Bundesbank the year was catastrophic. Only one year ago, Bundesbank President Karl Otto Poehl made this statement in the WIRTSCHAFTSWOCHE business outlook report: "For the first time in eight years we have failed to reach our money supply goal." His wish that "we hope this will remain an exception" remained unfulfilled. In 1987 the money supply once again overflowed its target range, and something unprecedented occurred at the end of this year, which continued getting worse for the Bundesbank: setting of a money supply goal was postponed until January. Because the Bundesbank for too long gave absolute priority to price stability over the reduction of world economy imbalances, the Federal Republic of Germany increasingly became a bone of contention, especially to the Americans.

It was true that the Americans had maneuvered themselves into a dead-end street with their insatiable appetite for imports and an extremely debt-financed spending policy—in the private as well as the public sector. But who profited from this? Certainly the export nations—Germany and Japan. The fact that the Germans were able to consolidate their budget and to have ample tax revenues was in no small measure due to German export successes in the dollar area. Small wonder that this gave considerable impetus to protectionist sentiments in the United States.

To ensure their capital requirements, avoid a recession and support their exports, the Americans had to make certain that at lower interest rates the interest differential with the FRG remained sufficiently large. Inasmuch as the Germans refused to lower the interest rate (arguing that enough liquidity existed to cover credit needs, but that too much liquidity might lead to inflation), the only thing left to do was to talk the dollar down.

After the stock market crash, all the fury of U.S. Treasury Secretary James Baker, who had been described by BUSINESS WEEK as the "new czar of international economic policy" one year after he assumed his office, was expressed in a statement on the existence of a "clique surrounding Helmut Schlesinger" in the Bundesbank.

The Bundesbank had for much too long a time refused to go along with U.S. demands for a significant interest rate reduction in order to expand the German domestic market. When the Central Banking Council of the German Bundesbank finally reduced the discount rate to a historic low of 2.5 percent, this could hardly have been said to be its own decision. U.S. Treasury Secretary James Baker had demonstrated the way in which he can

set exchange rates as he pleases. To this was added the worry about the effects of the stock market crash on the economy, and the only thing left to do was to comply, as the German Institute for Economic Research had urged for some time. Said President Professor Hans-Juergen Krupp: "The interest differential for U.S. dollar investments must increase more so as to stabilize the exchange rate." But until recently, the Institute was in the untenable position of a minority.

The majority of institutes believes that an artificial interest rate reduction would "sooner or later result in an acceleration of price rises." The Expert Council on Economic Development (SVR) worries about the same thing. Four out of five wizards recommend that the Bundesbank return to the money supply limit. Professor Ruediger Pohl is the only one who is against a monetary policy which is strictly oriented toward price level stability: "With such a retrograde direction of the money supply growth the Bundesbank would contribute to rises in interest rates which would severely impair the economic development of the FRG and which would at the same time trigger new turbulence in the foreign currency exchange markets."

In view of the money supply trends, a lot of people are worrying about inflation again, particularly in the United States. But how is inflation supposed to come about? Inflation means price increases. They can be triggered by cost increases or excessive demand. Drastic cost increases are unlikely in both labor and raw materials. Increased demand can result only from ample money supplies, both private and industrial. They on the other hand have a choice on what to do with their funds. There are three possibilities:

—the money remains a reserve for speculation; in that case, little or nothing happens;

—the funds flow into the capital market in the form of financial investments. This leads to a tendency of lower interest rates, which are desirable for a flourishing economy;

—or the money is spent as desired for consumption and capital investments.

The latter is particularly important for the creation of new jobs in underused capacities, such as are again occurring or imminent in some industries. This in itself would not create inflation.

The fact that at present not only the monetary watchdogs in Frankfurt give an impression of poor planning, but also the economic advisers to the government, is primarily due to the existing uncertainty about forthcoming demand—more specifically, the demand for capital investment. For some years now actual investment in the FRG has lagged behind forecasts. Thus the Expert Council on Economic Development (SVR) predicted a net gain of 9 percent in equipment investments for 1986; the

actual figure turned out to be half of that. The same thing one year later: of the predicted 7.5 percent, about 4 percent will be achieved at best.

While during the last two years investments have increased, their pace of increase was only one-half of that of profits, which, according to the Bundesbank, increased by 7.6 percent in 1985 and 13 percent in 1986. The result: despite satisfactory industrial balance sheets, the economic growth rate since 1985 has always been slower than predicted by the FRG government. The increase in employment was not sufficiently large to bring the number of unemployed below the two-million mark, even for a limited time.

While investment was lagging, industrial coffers were swelling: according to annual reports analyzed by the Bundesbank, they rose from DM 2.5 billion in 1985 to DM 19 billion in 1986, and they have probably continued climbing at a healthy clip since then as well. During the two months preceding the stock market crash, the German bond market offered yields of more than 7 percent for long-term German investments. Two-digit rates even were available in the United States. Such net yields were available at a time of historically low inflation, far beyond expected yields for industrial investments, at a time when actual yields were still quite respectable.

The Bundesbank has no means of directly influencing long-term interest rates, which are a deciding factor for comparing financial and equipment investments. But its general stance still exerts influence upon expectations of whether long-term interest rates will fall or rise. This is so because the trend of short-term interest movement has seldom been longer than three to four months, contrary to long-term movements.

This brings up the question of the liquidity trap: if the citizens and industrialists squirrel away their income in "speculative reserves" instead of spending it on consumption and capital investments, they generally expect increased interest rates. Had the Bundesbank further reduced short-term interest one year ago, as requested by the Americans, and thus signaled lowered expectations, this might have avoided the increasing pressure on the dollar, because at that time the financial markets still believed in the Bundesbank's sovereignty. Had Bonn in addition passed legislation on building at that time, the export market could have been converted to a domestic market.

When however in March 1987 U.S. long-term interest rates started rising, uncertainty began to break out. Worries about a stock market crash began to make sense. Rising interest rates in America made for increasing worries about a U.S. recession. And, as a current saying has it, if America has a cold, Europe catches the flu.

All this also brings about doubts about the German capability for international cooperation. French Prime Minister Jacques Chirac, for one, criticized the "egotistical attitude of the Germans" early in the year, blaming their stability policy for a devaluation of the proud franc within the European monetary system. Democrat Lloyd Benton expressed protectionist sentiments in the United States in matters of world trade: "Waiting for GATT to do something is like dropping a rose petal into the Grand Canyon and waiting for an echo."

True, the Plaza Agreement in the fall of 1985, the Louvre Agreement of Paris and the meeting of finance ministers and central bankers in Glenn Eagle, Scotland came up with promising initiatives for a new form of internationally coordinated economic policy. But the impression of failure which all these meetings seem to leave in their wake is that much more confusing. Only this much has been firmly established so far: in the absence of a joint economic and monetary policy it is impossible to maintain an exchange rate agreement.

While the Germans stubbornly pointed to the necessity for reducing U.S. federal budget deficits and the trade balance, the Americans justifiably kept urging an expansion of German growth, so as to make the European import market more suitable for accepting U.S. imports.

It is true that the U.S. federal deficit is horrendous, measured by its sheer size. But in context with the GNP, it is about average for Western industrial nations, especially considering the surpluses in several states and balancing national capital requirements. Total new U.S. debt amounts to a mere 2.5 percent of the GNP.

Industrialists must feel insecure also if one government party, whose greatest strength at one time was its economic competence, is no longer Ludwig Erhard's party of a social market economy. The strategy debate within the Union, instigated by Heiner Geissler, in which the Union tested the possibilities for becoming socially competent, was basically only the culmination of a long existing adoption of marginal utility thinking: not the majority per se, but rather the deciding percentages, expressed in the electorate share among special interest groups, moved into the Union's center of attention of its economic and social policy thinking. No heed was paid to the fact that the social market economy is supposed to be of service to all and that consideration for special interest groups entails a loss of wealth for everybody.

German industry is increasingly fearful that the stubborn stance of the FRG government in the area of agricultural policy will in the end backfire by way of protectionist countermeasures (by the Americans, but also by neighboring EC countries).

What then do the Bundesbank and the FRG government have to do to do away with the general insecurity?

Hardly anybody seriously believes that during the next three years the Americans will flood the European market with their products. Before that could happen, the drastically increased foreign investments in America would have to "infect" American industry with technical impulses.

Until that time however, the imbalances can be corrected only if the Europeans expand. And industry needs to be reassured on this point. That is a crucial task for 1988 politics. If capital investments are to become more attractive than financial investments in the future, especially in the FRG, then the FRG government must make up its mind to put in motion a comprehensive confidence-generating program, apart from measures previously decided upon. For this purpose the present trade cycle program is just as insufficient as is the second phase of the first tax reform advanced to 1988. The large chunk of tax reform for 1990 comes too late for generating confidence. The recommendation by the research institutes of either advancing tax reform or to start with a 10 percent reduction toward the 1990 tax reform already this year, would be an important first step.

Inasmuch as the building industry projects the overall picture of the trade cycle and because here too massive job opportunities exist for acute environmental protection needs, the government should decree a long-term environmental clean-up program beyond the confines of the trade cycle program, which would, for a period of 10 years, achieve urban environmental clean-up (especially waste water drainage and dump rehabilitation).

At the same time, Bonn must find a way which would not saddle the communities alone with the burdens of financing this. Requirements for environmental rehabilitation exist primarily in cities with old industrial structures and high unemployment, such as in the mining towns in the Ruhr, where often entire trade areas are unusable because they are contaminated by old coke plants.

Bonn must to a much greater degree take control here and make certain that on the one hand the building industry can be assured of a longer-term phase of constant business, and that on the other hand communities will receive a greater share (income tax) of the total tax revenue. This would make it easier for the communities to bear the debt service load, because the Federal government would assume part of it. If nothing were to happen in this regard, it might be feared that the negative trend (as in the industrial forecasts) would turn down even more sharply next year, and that this would become the source of negative impulses upon the labor market.

But that is not all. The FRG must make use of courageous deregulation for increasingly opening the well-funded FRG markets to foreign countries. Some industries would be quite displeased by this, especially those used to making big profits as government contractors. But it would also make for dynamic competition and

would force German enterprises to make those capital investments which they now think they might be able to avoid making. This is true, among others, for the telecommunications market; it is true also for the entire service industry area, which is slated for liberalization within the EC domestic market anyway. It also concerns such areas as the entire food legislation and business closing hours.

The Bundesbank should abandon its basic principle of money supply oriented toward the domestic situation and arrive at a new concept of foreign currency stability. To achieve that will take more than concentrating on price stability, which however must not be neglected. The euphoria with which Washington welcomed the Bundesbank's last interest rate reduction demonstrates that the FRG government and the Bundesbank must embark on an international offensive. Frankfurt should give serious consideration to the possibility of applying the EWS system to the dollar, yen and mark, because the EWS system has, in the overall picture, imposed discipline on economic policy.

Those responsible for making economic policy must not be seen as institutions which under pressure and urging from outside the country take action to remedy imbalances, unenthusiastically and against their will. While that impression continues, many do not believe that interest rates will remain at their present low level for any length of time. And while it lasts, the full coffers of the industrial enterprises will do little to contribute to the creation of new jobs.

9273/12913

GREECE

Total Exports for 1986 Register Significant Increase

35210043 Athens I KATHIMERINI in Greek
10 Dec 87 p 9

[Text] Greek exports registered a significant increase in 1986, both in volume and in value in U.S. dollars, as compared to the level of 1985. This results from a respective study published by the Panhellenic Association of Exporters, titled "The course of Greek exports during the year 1986."

According to the information in this study, the value of the Greek exports in dollars registered an increase of 23.9 percent above last year and came to 5,644 million dollars from 4,555 million dollars in 1985. If the petroleum products are not included in the calculations, the course of the exports was more favorable (an increase of 31.1 percent).

The volume of Greek exports in 1986 increased by 16.9 percent as compared to 1985, a significantly higher percentage in comparison to the stagnation observed in

1985 as well as to the 1984 increase (12.1 percent) always compared to the previous years. Besides, the average value of our exports in dollars increased by 6 percent in 1986.

Significant Progress

This progress is even more significant considering the restraint in expanding international trade for the second year in a row. The rate of increase of the Greek exports was among the highest among the member countries of the OECD, and more specifically of the EEC. Besides, these positive developments are accompanied this year by the increase in the competitiveness of the Greek products.

The improvement in the exporting records of 1986 is due both to the increase in farm and industrial products. The more spectacular increases were registered in the categories "purified and refined vegetable oils" (increase by 118 percent) and "firearms, ammunition" (increase by 522.6 percent), while exports of raw materials and fuels showed a decrease.

From a geographical viewpoint, the increase of the exports in 1986 is due to the large rise in exports to the OECD countries (37.8 percent) and especially to EEC countries (47.6 percent) and the EFTA countries (30.9 percent). On the other hand, a perceptible decrease was noted in the exports to countries of Eastern Europe, the Middle East, North Africa, and the "Remaining Socialist Countries" (that in the last case is mainly due to the reduction in our exports to China).

The reduction in imports in 1986 combined with the significant increase in exports resulted in the perceptible improvement of the trade balance, cutting down the deficit by 10.9 percent. If, however, the payments for fuel (that have been significantly lower because of the drop in the prices of crude oil) are subtracted from the total imports, the deficit in the trade balance was enlarged. This development is due to the fact that the improvement observed in the real measurements (the larger increase in volume of exports as compared to the increase in the volume of imports) was counterbalanced by worse trade terms.

9346/08309

ITALY

ENI Furnishes PRC Hospitals With State-of-the-Art Equipment

35280068c Rome *IL FIORINO* in Italian 17 Nov 87 p 5

[Article: "A 16 Billion Lire Contract for Inso (ENI) for Equipment in Two Hospitals in China"]

[Text] The primary-treatment hospitals of Beijing and Chong Quing in the PRC have been completed with the installation of health-care structures and instrumentation furnished on a turnkey basis by Inso [Social Infrastructure Systems] S.p.A., a company of the ENI group.

The two hospitals, which will start operations at the beginning of 1988, constitute the most advanced structures of this type in China and have been outfitted by Inso on the basis of a contract signed with the general direction of cooperation and development of the Ministry of Foreign Affairs. The contract totals 16 billion lire.

The instrumentation supplied is of a quite sophisticated type and constitutes medical technology transfer from Europe to China. It includes apparatus and instrumentation for radiology and analytical laboratories, operating rooms, intensive-care and life-support units, cardiology, EEG, hemodialysis, and hyperbaric medicine equipment, two CAT scanners, and 61 completely outfitted mobile emergency units linked by radio to the two hospitals.

The contract also provides for training Chinese specialists in seminars to be held in Italy.

The two-story Beijing primary-treatment hospital is located at the center of the capital city, near Tien An Men square.

The 20-story Chong-Quing primary-treatment hospital is located on a hill in the center of the city. With more than 13 million people it is the industrial and retail capital of Szechuan province.

Inso is a general contractor for turnkey projects in the sectors of hospitals, schools, research laboratories, etc.

In health care, Inso has taken turnkey hospital projects from planning through construction. Among them are the two new general hospitals in Rome contracted for by the Latium region: the Ostia Lido, completed in 27 months, and the Pietralata, which will be completed in 24 months, in October 1989.

In Sinai, Egypt, Inso has built an emergency treatment hospital at Abu Rudeis, while the general hospitals of Casalmaggiore, Cremona province, and Valle Camonica in Breno Darvo, Brescia province, contracted for by the Lombardy region, are in the final stages of construction.

8782/12913

ENI Signs Extensive Energy Contract With Tunisia

35280068a Rome *IL FIORINO* in Italian 5 Dec 87 p 3

[Article by Antonio Lucaroni: "Reviglio Received by President Ben Ali, Signs ENI—Tunisia Agreement"]

[Text] Tunis—In 1964 the country's main oil deposit was discovered; in 1987 the first economic cooperation agreement was signed. The agreement includes energy, chemistry, engineering, and vocational training. Relations between the ENI [National Hydrocarbons Agency] and Tunisia were formed between these two dates, and

they were formalized in Tunis yesterday with the meeting between National Hydrocarbons Agency President Franco Reviglio and the new Tunisian leader Ben Ali, who recently succeeded to the leadership of the African country in Bourguiba's 87th year.

Reviglio is the first representative of a large economic group to meet with the new president of the Tunisian republic since the "new course" was set by Ben Ali. The opportunity enabled the ENI president to emphasize the importance of economic and trade relations between Tunisia and Italy, a large share of which is accounted for by the ENI. An example of this is the agreement concerning the energy sector, which was signed in Tunis by Reviglio and the minister of the National Economy, Ben M'Barek; but it may also be extended to other fields of mutual interest. Among the sectors in which cooperation may occur are, notably: hydrocarbon prospecting and production; the refining and distribution of petroleum products; the development and use of alternative energy sources; engineering and services; innovative technology research, especially in agriculture; training and outfitting in centers created for high-tech maintenance and research; and chemistry, particularly as concerns phosphate fertilizers.

After the recession of the early 1980's and the following recovery phase, the ENI determinedly returned to its policy of internationalization. The Italian government group is particularly in evidence here in Tunisia: at Cape Bon, for example, the great trans-Mediterranean gas pipeline dives beneath the Strait of Sicily and links North Africa to Europe. Some 25 years elapsed between Mattei's death and Reviglio's visit to Tunis; the meeting with Ben Ali and the Tunisian leadership confirm that the strategy of internationalization, especially with oil-producing countries, is still a cardinal feature of the group's economic policy. "Our energy dependence and vulnerability," said Reviglio, "can be reduced with new discoveries, but it can also be reduced through interdependence with oil-producing countries. With Tunisia," Reviglio continued, "we do not want to limit ourselves to working together in energy rather we intend to extend the field of activity to other sectors, particularly tourism and the agricultural applications of chemistry. In short," added the ENI president, "it means collaborating in fields that constitute the pillars of the Tunisian economy, namely petroleum, phosphate fertilizers, light manufacturing and tourism."

"Tunisia is a very interesting market," continued Reviglio, "especially since it registered a 5 percent increase in the gross domestic product in 1987 and succeeded in getting out of the slough of underdevelopment in which it had been mired because of the oil countershock. The Tunisian economy is a very open and free one; it readily accommodates joint-venture agreements that make it possible not only to expand financing," emphasized Reviglio, "but also to make

direct investments as the necessary groundwork for creating a Tunisian entrepreneurial class." ENI's presence in Tunisia is decidedly large: overall, Italy is the second largest country, after France, in trade volume; Italy has a net 28 billion lire trade balance, and 10 percent of the goods and services that Italy supplies to Tunisia go through the ENI. AGIP [National Italian Oil Company], for example, has discovered the country's largest oil field (70-80,000 barrels of crude oil, about half of which are the ENI's). Snamprogetti supplies engineering services for the oil drilling platforms. Also, Saipem is drilling on behalf of AGIP Africa and Sitep, while Nuovo Pignone is supplying machinery and equipment.

Collaboration is also intense in the field of job training (Saipem's school for oil-drilling technicians or Comerint's courses), in the efficient use of natural gas (Italgas is helping the Tunis gas distribution network convert to methane), and in the use and development of alternative energy sources. According to Reviglio, this closely coordinated collaboration between the Italian government group and Tunisia is taking place for the purpose of balanced development in two important socio-economic spheres in the northern and southern areas of the Mediterranean. A topic of great current political interest, which will be discussed today at the International Business Forum in the Tunisian locality of Sousse, is: "Europe and the Maghreb: a Common Future?" Besides the president of the ENI, Italian Socialist Party Secretary Bettino Craxi and the PSI leader in the Chamber of Deputies, Gianni De Michelis, will speak at the convention.

In the course of his visit, Reviglio met with Tunisia's highest economic and political leaders: besides the president of the Republic, Ben Ali, he met with Prime Minister Baccouche, Oil Minister Gannouchi, Central Bank Governor Khelil, State Secretary for Energy Jebali, and Italo-Tunisian Cooperation President Baly. Reviglio was accompanied by the president of AGIP, Giuseppe Muscarella, the president of AGIP Petroleum, Pasquale De Vita, and the president of Snamprogetti, Duilio Greppi.

8782/12913

Scientific Equipment Industry Not Viable
35280068e Rome IL FIORINO in Italian 27 Nov 87 p 4

[Article by Nathan Sonnino: "Chemical Equipment: We Depend Heavily on Foreign Imports"]

[Text] We import 85 percent of high-tech equipment and 70 percent of the rest. The brains and organization are lacking, and most of Italian business is small (30 employees). National corporations are finicky customers.

Scientific equipment intended for research and control laboratories represents a market valued at about 1.5 trillion lire in Italy in 1986. Scientific equipment and chemical apparatus produced in Italy are of a high technological level and are present in private companies of many kinds (mainly pharmaceuticals, textiles, electronics), in CNR [National Research Council] laboratories, and in universities and private laboratories. However, this equipment must compete with a large number of imports. Italy is highly dependent on foreign imports, mainly because it lacks the organization necessary to support its chemical-equipment business. About 85 percent of high-tech equipment is imported, and imports account for 70 percent of the rest. The imports come from the United States, Germany, Switzerland, Great Britain, Japan and France. Most of our producers, and this is one of the causes of our dependence on imports, are small businesses (averaging 30 employees). These businesses were present in Milan recently at the RICH, the International Review of Chemistry, and at the MAC, the International Exposition of Chemical Equipment for analysis, research, control and biotechnology. These conferences were held at the Milan convention center and were the most important European event of the year for operators in this burgeoning industry. Any type of analysis, whether chemical, physical, organographic, spore or viral, uses these instruments for measurement and verification. Their use extends even farther afield: for example, a transport company may need to check the quality of motor fuel, or a beverage company may have to control the composition and characteristics of its products; not to mention environmental problems, such as measuring atmospheric pollution and purifying water. For these reasons and thanks to the initiatives such as those promoted by the CNR, which coordinates a total of 209 billion lire in various programs, the market for scientific instruments will expand at least 10 percent in 1988. But Italian production has another obstacle in its way: public corporations. The exhausting red tape, the necessity of dealing with monopolies, which require complex legal documentation and the payment of large deposits because of the anti-Mafia law, the choice of systems on the basis of price rather than product characteristics, and, especially, lengthy delays in payments, induce many companies to do business only with private parties or with agencies that guarantee a contract settlement and payment in more reasonable terms.

8782/12913

Cost of Reconverting Nuclear Plants Astronomical
35280068d Rome IL FIORINO in Italian
26 Nov 87 p 2

[Article: "The Government Asks ENEL To Calculate the Cost of Reconvert Montalto"]

[Text] The nuclear reactor is under construction in Upper Latium.

ENEL [National Electric Power Agency] is reviewing all its accounts on the Montalto di Castro power station. The government has asked the agency to

calculate the cost of finishing the plant by equipping it with gas-fed or poly-combustible-type generators rather than two nuclear reactors. The new generators would burn alternatively (according to availability and cost-effectiveness) gas, coal and fuel oil. As an alternative, they ask also an estimate of the cost of installing in Montalto a nuclear reactor that is "intrinsically safe," i.e. of a type designed and constructed so that the plant would shut down automatically in the event of any operating anomaly. A Chernobyl-type accident would not occur in a reactor of this kind, where abnormal working conditions led to overheating, which in turn accelerated the chain reaction and increased heat emission, thus causing a spiraling sequence of events that ended in catastrophe. The Industry minister's letter to ENEL, in the aftermath of Goria's statements on nuclear power and the referendum, also asks for cost estimates for closing the Trino and Caorso plants.

Some estimate of the costs involved in abandoning nuclear power were supplied at a conference on energy problems held in Rome by the Rotary Club. ENEL President Viezzoli has estimated that abandoning nuclear power would cause economic losses of about 8 trillion lire: 4.5 billion for Montalto, 1.035 billion for Trino II, 42 billion for Latina, and 190 billion for Trino I. To this must be added costs ranging up to 236 billion lire for a total of about 6.5 trillion lire as of 1 January 1986. Considering an increase of 10 percent in costs in 1986 and 1987, the estimate comes to 8 trillion lire.

Viezzoli also emphasized that electricity consumption is rising at a rate greater than 5 percent (5.5 percent in October according to data released yesterday—editor's note). This rate is greater than the forecasts, which were contested at the time, presented by ENEL to the National Energy Conference. Consumption is now 180 billion kilowatt hours a year and will increase to 285 billion in the year 2000. To meet the demand, plants must be built to produce the other 11,000 megawatts.

At present, a deficit of 7-8,000 megawatts is forecast for 1995, but Viezzoli wished to conclude on a note of optimism: "If they let us do our job," he said, "the electricity will be there."

Economist Mario Arcelli (vice-president of the Bank of Rome) calculated that closing the Caorso nuclear power plant (840 megawatts) will cost about 400 billion lire a year if it has to produce from oil or coal. Every 1,000 megawatts produced with oil costs 300-350 billion lire more than nuclear power. The cost differential drops to about 100 billion if coal is used. Abandoning or reconverting Montalto, Arcelli said, would cost 700 billion lire a year. A similar annual cost must be met for each nuclear plant planned but not yet built. To these costs must be added the

indirect costs linked to the loss of international industrial and technological competitiveness. The last speaker of the evening was Prof Leopoldo Elia, who considered the legal problems. Among other things, he hoped that the numerous veto rights on nuclear plant sitings would be eliminated from regulations.

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Wealth, Poverty Vary According to Individual Cities, Towns

35280068b Rome *IL FIORINO* in Italian 1 Dec 87 p 4

[Article by Rodolfo Palieri: "The Economic Gap Between 'Rich' and 'Poor' Communities is Widening"]

[Text] The contradictions of the Italian countryside: the richest, with a per-capita income of almost 30 million lire, are the inhabitants of Portofino, in Liguria. The poorest, with an income of only 2.7 million lire, are those of Elva, in Piedmont. The gap is widening between North and South and between the cities and the countryside. The data can be perplexing.

An "Italy of Communes"

The country is made up of many provinces, and it is seeing the disparity grow between its towns, between "rich" and "poor," between city and countryside. This is the socio-economic profile that emerges from the 1985 study of the income of Italian communes, carried out—after registering the increase in the gross domestic product (GDP)—by the team of Giorgio Marbach for the Spirito Santo Bank. The results of the research were presented to journalists at the Center for Economic Documentation; according to CENSIS Secretary Giuseppe De Rita, the data show an unexpected "feudalistic geography."

The disparity between the wealthiest locality, Portofino (near Genoa), with 29.6 million lire in per-capita disposable income, and the poorest, Elva (near Cuneo), with 2.7 million, is incredible. It amounts to saying that the standard of living in Portofino is 11 times greater than that in Elva. Moreover, Elva, first in poverty, has beaten out the Southern town of Santomenna (2.71 million as opposed to 2.73 besides lesser consumption); Elva is also located in Piedmont, one of the wealthy regions. When interviewed, the city assessors of Portofino and Elva found that the disparity between their localities was unrealistic.

"Social individuality:" the rich are getting richer and the poor, poorer. That is the most striking result of the "audit" made by Marbach since the updating of national accounts. To what extent does the increase in the GDP (up 17.8 percent nationally in 1985) change the economic geography of the regions and provinces, where the 8,090 Italian communes are located? Marbach's team—Marbach is a professor of market analysis int he department of Statistics at the University of Rome—answers,

"The disparity between the relative well-being of the Center North and the poverty of the South is greater than was thought. There is also more of a gap between the privileged economic areas (zones of tourism, industrialization or production, and urban centers) and the depressed areas (mountain and foothill zones, the countryside, and regions with few businesses). All this shows a strong 'social individuality' that refutes statistical homogenization."

Marbach reduces the "gap" to a bare-bones summary: Portofino, with 29.6 million lire in per-capita disposable income is the richest; Elva, with 2.7 million, is the poorest. Bologna, with 15.9 million, is the richest city; and Enna, with 6.1 million, is the poorest. Also at the wealth-poverty poles are the Friuli-Venice region, with 14.2 million lire in per-capita disposable income, and Calabria, with 7.6 million. Among communal capitals, Bergamo leads with 21 million, while Enna is again last with 7.9 million.

City Versus Country

Among the disparities in growth is that of the city vs the country, which statistical "Homogenization" makes evident. The standard of living in urban areas is very different from that in the country, which is generally penalized by peculiarities of culture and custom. Hence the communal capitals generally occupy a higher position on the scale of well-being if the rest of the area is ignored. This is the case with Bergamo, first among the communal capitals and 32nd in rank among the provinces. Those living in the city of Bergamo have 9 million lire more income than those living in the surrounding countryside. An exception to this rule is the commune of Bologna, which is 11th among communal capitals and, thanks to a "rich" hinterland, first among the provinces.

"New Geography"

De Rita, "first reader" and official interpreter of the report, listed these characteristics of the country's "new socio-economic geography:" (a) the northeastern area of Italy is still the most dynamic; (b) the old industrial triangle is reasserting its strength (seven communal capitals in Lombardy lead the list in level of income); (c) the "third Italy" includes Veneto, Trentino-Alto Adige, Latium, Marche and Umbria, excluding Tuscany, which is a step ahead of them; (d) the South (especially the Adriatic side) has not kept up with the Center North, although tourism has enabled it to outdistance Sardinia; (e) on the scale of provinces, the first 37 "imperial" places are the northern communal capitals of the regions of Emilia-Romagna, Friuli—Venezia Giulia, Lombardy, Liguria, Piedmont and part of Tuscany. The 22 provinces that are in 38th to 60th place form a heterogeneous "confederation:" they are those of the regions of Trentino-Alto Adige, Veneto, Umbria, Marche and Latium (excluding Frosinone). From 61st to 95th place are all the southern provinces with the sole intrusion of Frosinone; (f) the list of communal capitals is led by Bergamo,

Sondrio and Mantua. Caserta, first in the South, is in 51st place (the difference between the per-capita income of the Casertan communal capital and the rest of the province is 5 million lire); (g) the geography of communal income shows great contrast. Almost all (93 percent) of those with an annual per-capita income of less than 9 million lire live in the south. Contrariwise, 87 percent of those with an annual per-capita income of over 10 million lire live in the northwestern part of the country. The higher-income communes are predominantly those with tourism and are located on the coast or in the mountains.

"Demographic Underground"

The traditional socio-economic areas make it hard to realize how highly diversified the country is. In allocating government expenditures, Giuseppe De Rita concludes that from now on "We ought to act at the commune level and bypass the present administrative levels of provinces and regions." But to what extent are the statistics—which are still open to debate—true? Giorgio Marbach ventures, "There is a demographic underground that has yet to be defined. We still do not know to what extent the population figures actually diverge from the resident population and, consequently, we do not know exactly how incomes are divided up." Marbach's objection can be explained by an example: if 200 people actually live in a locality but we know of only 150 residents, the per-capita income is "inflated." That is, to calculate the disposable income of the individual inhabitant we divide the income of the locality by 150, not by 200. Naturally, researchers can only survey the demographic situation of the individual centers and analyze it with the information they have. And it does not always mean discovering an excess over the census figures (because of temporary unregistered residents). Sometimes, as in the case of emigration, a drop in population may be discovered. Thus, in one of the poorest localities, Santomenna, in Salerno province (988 inhabitants, 381 of whom have temporarily emigrated), there is a "demographic underground to be discounted," and in others, like Castel Volturno (Caserta province), there is one to be "added" because of its large colony of foreign immigrants.

A "Map" of the Population

In sum, Italian communities are, as Marbach has discovered, very diverse, and this must now be reckoned with. For this reason, De Rita has proposed a "research campaign" that would involve ISTAT [Central Statistics Institute], the CNR, the universities and specialized institutes in drawing a more realistic demographic map of the country. This map would show population movements by providing a picture of the "actual residents." This would make it possible to share resources more equitably and effectively.

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PORUGAL

Businessmen Pessimistic About Economy's Future

Negative Budget Impact

35420045a Lisbon EXPRESSO 2 in Portuguese
9 Jan 88 pp 1E, 4E

[Text] The latest EXPRESSO/Businessmen Panel consultation reveals that more than three out of five businessmen believe that the state budget for 1988, recently voted by the Assembly of the Republic, will have a negative effect on the course of business activity this year. That opinion is derived from the fact that about 76.4 percent of those queried described that budget as constricting or very constricting, while only 18.4 percent consider it correct. Two point six percent of the businessmen term this year's budget as expansionist and not very clear in its objectives.

Far below the 63.2 percent who consider that the 1988 state budget will have a negative impact on business activity are the 5.2 percent of those queried who are of the contrary opinion, while 8 percent do not expect any significant impact on their business by the budget policy adopted for this year. More than 23 percent of the businessmen queried did not know or did not respond to this question.

Climate Worsened in November

In the monthly panel consultation, before inquiring about the nature of the budget's consequences on the companies' activity, the businessmen were queried about the magnitude of that impact. To that query, 21 percent of the responses indicated that the budget would have a "determining influence" on business activity, while 44.8 percent of those queried believed that that impact would be "small," 2 percent even stating that it would be "zero." More than 23 percent did not respond to this question.

Among those who share the opinion that the budget's influence on business will be "determining," half believe that it will be negative, 12.5 percent state that it will be positive, and 37.5 percent do not specify the trend of that impact. Among the group of businessmen who expect budget policy to have little influence on business, almost 6 percent believe it will be negative, while 6 percent believe it will be positive.

The consultation of the EXPRESSO/Businessmen Panel to which we have been referring also made it possible to detect a strong deterioration of the business climate during the month of November, both in terms of appraisal of the recent past and as regards short and medium-term prospects.

Deterioration of Business Climate
35420045a Lisbon EXPRESSO 2 in Portuguese
9 Jan 88 p 4E

[Text] Judging from the results of the latest consultation of the EXPRESSO/Businessmen Panel conducted during the first quarter of December, for the businessmen, the month of November represented an obvious sign of a cooling of the rate of growth the Portuguese economy had been experiencing.

That cooling is expressed in all the opinions of the members of the panel, whether they pertain to the recent past or their expectations regarding the future. As a matter of fact, while the prospects of better business in the medium term rose from 73.2 percent (October) of those queried to 76.2 percent, the same graphic also shows a 6.4 rise in the percentage of businessmen who expect to see their business drop or drop very much in the period of a year.

There is also an erosion of business expectations in the short term, falling to the lowest level of all of 1987. Only in May—the month when the fall of the first Cavaco Silva government became certain—did the businessmen appear so little optimistic regarding the short-term future. The balance of extreme replies regarding the expected development of business activity in the next three months is only 47.4 percent in November.

Reverse Trend

As for the activity carried out during the month in question, the members of the panel clearly noted a reverse trend of the recovery shown in September and October.

Thus, the penultimate month of 1987 was the one in which business activity grew the least compared to the same period of the previous year. "Only" 76.2 percent of those queried acknowledge that there was growth, while 8 percent hold the contrary opinion. That balance of extreme replies is the lowest of the year and the third to fall below 70 percent.

Countering the expansionist trend that had been occurring since the end of the holidays, November was also clearly less favorable than the preceding month. Less

than half of the businessmen said there had been an improvement in the activity of their companies, and the number of those who saw their business worsen or greatly worsen compared to the previous month rose to 13.2 percent.

It remains to be seen if the business climate that prevailed in November will continue into December, a traditionally strong month in some sectors of activity more closely connected with trade and for that very reason sensitive to Christmas spending.

It should be recalled that the EXPRESSO/Businessmen Panel is comprised of a stable group of 50 businessmen and managers representative (in terms of sector and geography) of the Portuguese business community, that is consulted monthly through a permanent inquiry.

The Three Most Influential Factors

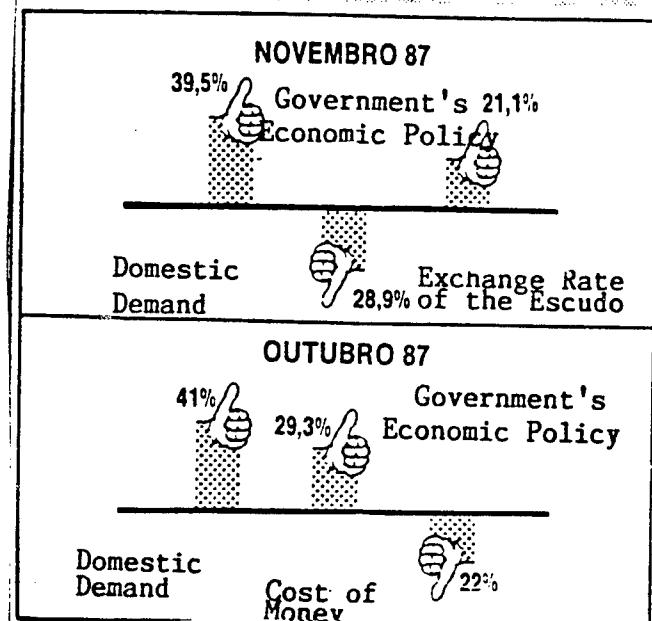
The factors indicated by the EXPRESSO/Businessmen Panel as having had the most influence on business activity during the month of November point to deterioration of the business environment.

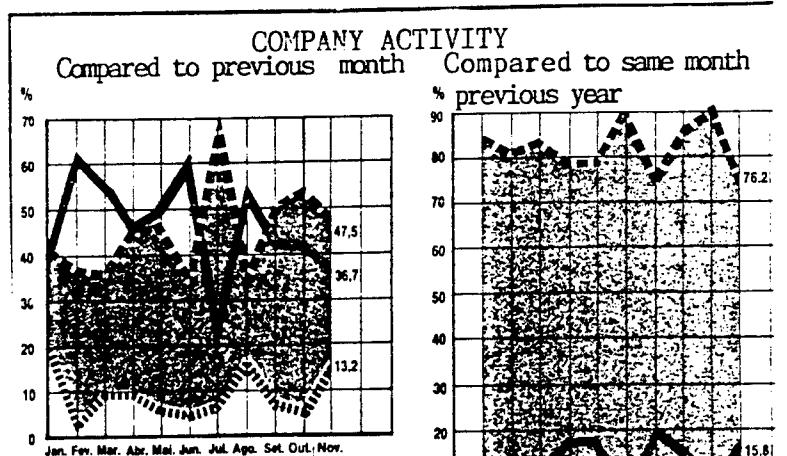
While "domestic demand" continues to emerge as the variable chosen by the largest group of businessmen (39.5 percent) as the factor having the most positive impact on their activity, the truth is that in November that figure was lower than in October. On the other hand, 15.8 percent of those queried are of the contrary opinion, that is, they indicate "domestic demand" as the variable with the strongest negative impact.

At the same time, the "government's economic policy" emerges now not in third place as in October, but in second place and with a greater percentage of businessmen who consider it bad for the course of their business. Only 3 percent of those queried indicate that element as one of the factors that had the most positive impact on production compared to November. Although receiving a number of mentions that merit its inclusion in the group of the "three most" [influential factors] in November, the "exchange rate of the escudo" continues to divide the members of the panel. As a matter of fact, while 21.4 percent mention it as the factor that most positively influenced business activity during November, about 18.4 percent indicate it as the variable with the most negative influence.

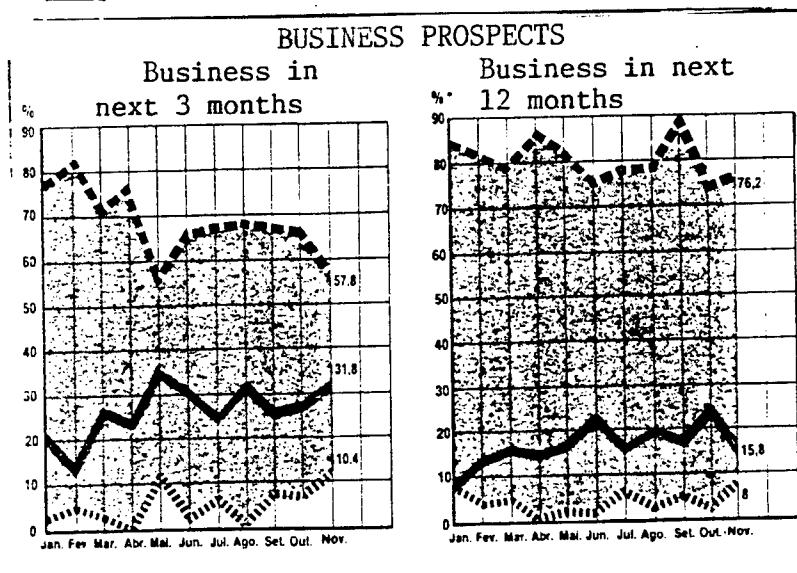
The Three Most Influential Factors

Os três mais





■■■ Improved/improved greatly
····· Worsened/worsened greatly
— Remained the same
— Positive balance



Is going to increase/increase greatly Same Positive balance
Is going to decline/decline greatly ······ — — —

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